31-DOT-70

REMARKS BY ASSISTANT SECRETARY CHARLES D. BAKER, U.S. DEPARTMENT OF TRANSPORTATION, BEFORE THE NATIONAL COMMITTEE ON INTERNATIONAL TRADE DOCUMENTATION, MAYFLOWER HOTEL, WASHINGTON, D. C., JULY 9, 1970

Back in 1957, a consultant friend of mine was researching the organization of a large U. S. company. In the process, he discovered, much to his surprise that 90 percent of the office staff in one plant, when asked "Who is your boss?" came up with the wrong answer. Ridiculous as it sounds -- they literally didn't know who their immediate supervisor was. All of which leads me to believe that it's extremely worthwhile (if for no other reason than to avoid this kind of confusion) to reflect on an organization -- in terms of who it is, how it's organized, and, generally, what it's up to.

Who is NCITD? According to my very sophisticated intelligence network, which includes members of the St. Louis Browns Scouting staff and other expert sleuths, you are a non-profit industry organization of approximately 250 members (both industry and government), representing just about every conceivable interest in international trade -- shippers, importers, exporters, manufacturers, freight forwarders, investors, insurance men, and last but not least, the various transportation modes.

The next obvious question is what do you hope to accomplish? I understand you're really part of the military industrial complex and that your primary aim is to wage war on all unnecessary paperwork and documentation that presently encumbers international freight shipments -- in effect to facilitate international transportation.

But why bother? First and foremost is the question of money. Our estimates are that costs related to documentation in U.S. international trade amount to an incredible $5 billion a year! My initial reaction on getting this information was a straight forward "cut it out! you're kidding!" But alas it's true. There are ninety-three documents per international shipment and while they do a lot for the paper industry and the file cabinet trade, there's not much consolation to the guy who's paying for it all or to anyone who has the bad luck of trying to work with it.

Now for a long time we have simply rolled with this punch, or rather haymaker; partly because we didn't really know the size of the monster we were dealing with and partly I guess because we didn't have a means of attacking Goliath anyway. But the conventional pessimism of the day notwithstanding, we are getting at the trouble. NCITD is not only alive and well, it's thriving. So what is it that is thriving? In short, what can be done better if NCITD succeeds in some of its efforts?

First, I think that any serious attempt (or attack if you will) to clear the paperwork jungle surrounding international trade must be a cooperative one in order to succeed. For openers, there's the question of money: If each of NCITD's some 250 members went out and whomped up it's own handy-dandy simplified documentation system, not only would 250-odd systems result (and let's face it - some of them would indeed be odd) but also each of you would have to duplicate at least part of the expense and effort of everyone else. Thus it seems clear that absent the kind of cooperative action represented by NCITD, no positive action could come from a fragmented and ad hoc approach. But now we do have an NCITD and a cooperative effort that allows maximizing communications and, perhaps most important, ensures that any solutions developed will provide benefits to all interested parties -- both industry and government. So, we have the machinery for the attack. But there is something else that I think is extremely important. You have a tremendous source of expertise in this room. Some of my Harvard Business School colleagues believe that once you get the hang of big thinking you can address any problem. Perhaps that was the philosophy that put a general in charge of the armada. My view is that if you want to solve problems you get someone who knows something about the subject, and NCITD is loaded with people who know this field.

But, what I have said so far is pretty much like warm coffee spilled on a dark suit -- it feels good but doesn't show too much. What exactly have we all accomplished? Well, for one thing my colleagues in DOT's Office of Facilitation are up to their collective eyeballs in the documentation study being undertaken jointly by DOT and NCITD. As you know here we are matching personnel and funds -- three men and $40,000. Kittle, Ross and Tepe are our on-site wizards representing the various government interests -- Customs, Commerce, AID, State, DOD, etc., while you are contributing the industry/user/operator point of view.

Now, everyone in this room will proclaim that there are indeed problems in documentation and we talked about some of the costs. But it's a different kind of cat to identify exactly what these problems are in detail, specifically what these are costing us, and where we can effect measurable improvement. I quoted earlier the startling fact that as many as 93 forms were involved in some international movements. I like to throw that figure around, but when I come right down to it, I'm not really sure how much of the time the total is 93 and when it's less or more. So one thing DOT and NCITD are up to in this study, is to get some tangible answers to some of these questions. This effort has been in full swing for about a year now and soon will culminate in a final report -- at which point we'll see if some of the things I've said about the potentials of our expertise and cooperative efforts really do produce. I think they will!

But the question still remains unanswered; what have we accomplished to date? Unlike the professor who when asked "How are you?" was stuck for an answer, I do have a reply.

About ten days ago, Bob Redding came into my office looking like a Cheshire cat -- Washington lawyer style. The smile, he said, was because of the greatest documentation breakthrough in history! Specifically, he was referring to ECE's acceptance of the international, intermodal through bill of lading. Now, I'm not quite prepared to put this in the class with the Egyptian switch from clay tablets to papyrus back in the big tomb era, but, when fully implemented, the through bill could save world trade as much as $1/2 billion a year (and that's not including the cutback in Excedrin)! If we can make this so, it is indeed a significant breakthrough and I think you are to be commended on your effort!

Another area of mutual DOT/NCITD activity (and here I might add our friends at Commerce are also involved) concerns efforts to automate reporting requirements for export statistics for qualified segments of the industry. Heretofore, every single shipment had to be individually documented. Now these same statistics can be communicated periodically to Commerce via machine. We estimate that when this system is fully implemented, savings to U. S. industry of $300 million a year will be realized.

While we are discussing cooperative efforts there is one other subject I think it appropriate to note which is of great interest to NCITD albeit less immediate involvement. That is the commodity code and description study that the Department of Transportation is undertaking in conjunction with Ed Guilbert's Transportation Data Coordinating Committee. At the present time there are some 17 different ways of defining commodities, and as a result each commodity has to be redescribed (and of course, redocumented) for every segment of its movement. We are attempting to develop a commodity description or code at origin which will satisfy (all) the various classification patterns now required for commodities as they move from origin to destination.

My remarks to this point have pertained to U. S. effort in documentation simplification. But as we all know, our piece of the pie is merely one part (albeit important to us) of the international trade picture. And so I think it is extremely important to be aware that there are others who are just as concerned, just as knowledgeable, (who knows, perhaps at times more knowledgable) and as active in these areas as we are. And it just so happens that we have with us today just such a person. The Honorable Lord Thorneycroft, as Chairman of the United Kingdom Committee for the Simplification of International Trade Procedures -- SITPRO -- has just concluded a very comprehensive study of international trade documentation and procedures. The SITPRO Report has developed a number of conclusions and recommendations which are extremely relevant to some of the work we are involved in. It is not only diplomatic but also prudent that we fully avail ourselves of the results of this study. I mentioned before the merits of cooperation by all segments of U. S. transportation in documentation simplification activity. I would further add that this same approach is valid on the international level. And indeed Lord Thorneycroft and I discussed commodity classification in some detail just yesterday.

Now, before I close I would like to discuss a couple of things that the Department is doing which are not specifically documentation related but that will impact on you (hopefully help you). NCITD has indicated interest in our Trade Simplification Act. The recent acceptance of the through bill of lading -- if we can make it work, you and I, will take care of one provision of this legislative proposal. But the Trade Simplification Act addresses several other issues. Specifically it would:

--permit carriers of all modes to publish joint or perhaps single factor rates to be quoted to shippers for through international transportation; under present law, the ability of land and ocean carriers to do this is not entirely clear.
--create a mechanism which will allow competitive market forces to work toward uniform liability; the best we can say about the practices of today is that they are complicated and at times appear unresponsive to needs of shippers.

This legislation is sometimes described as the bill nobody loves. But, I think increasingly transportation people, shippers and carriers alike, are indicating support of these aims.

We have also recently sent legislation to the Hill regarding seaman certification -- like everyone else these days we are proposing to enter the charge plate business. Each U.S. merchant seaman will have a charge plate-like card which will contain all the necessary vital statistics for engaging and discharging procedures, thus bypassing the present time-consuming effort involved in this activity.

A third area deals with passports. The Saltonstall report has made several suggestions and we look to joining with our good friends at State and elsewhere in efforts to further refine matters where appropriate.

Gentlemen, when the old-guard made it's final charge at Waterloo, it came to grief because -- among other things -- Napolean's scouting forces had failed to identify a hidden ditch running across the battlefield. NCITD knows the documentation ditches are there and is in the process of identifying them. The solutions and resolutions are coming forth. International trade is being facilitated. You are to be congratulated. Thank you.

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REMARKS BY CHARLES D. BAKER, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS, BEFORE THE GRAIN TRANSPORTATION SYMPOSIUM, UNIVERSITY OF ILLINOIS, URBANA, ILLINOIS JULY 29, 1970

Dean Bentley, Dr. Stice, distinguished participants, ladies and gentlemen: I am delighted to be here today and to have an opportunity to participate in your Grain Transportation Symposium. A good place to start in a discussion such as this is, I think, to ask the question, "Why am I here?" One obvious response is that grain and transportation are of paramount concern to one another. In fact, you can almost say that without one, you wouldn't have the other--at least, in their present forms.

It is eminently appropriate that I or somebody like me be here today. Willy, nilly the government is heavily involved in transportation. Today, I'll tell you something of how this involvement looks like to me and something of what we are up to. Then, hopefully, you can decide where we are on mark and where we are off and then can act to change us. I am counting on you to do so: Government in isolation is a pretty scary thing.

This morning you got some railroad views, both from management and labor, and I see that this afternoon you will hear more and listen to the grain producers as well. (And, of course, we've all read Dr. Stice's paper on the glories of corn in Illinois.) So for a few moments here, I'll tell you how things look from Washington.

By almost any measure, grain transportation is the railroads. As a percent of bushels of inspected grain shipped, trucking represents 13 percent of the total, barge 19 percent, and rail, a whopping 68 percent. (All this adds up to only 90 percent, but we have to allow 10 percent for government statisticians.) Looking more closely, we see that in 1968 there were more than 3 million carloadings of grain and grain products--over 1 million carloadings of grain alone--more than 10 percent of the rail industry's total carloadings. Most of these shipments are made by country elevator operators, by terminal operators, and finally by the ubiquitous U.S. Government, the Department of Agriculture's Commodity Credit Corporation.

So what's the problem? After all, there's lots of volume and thus a heavy interdependence between rail and grain. First of all, as most of you are aware, I am sure, there is a fairly significant seasonality or demand peaking in these shipments. About 60 percent of the total grain shipments occur during the summer and fall months which means that there is 50 percent more demand during this time than in the winter and spring. And this leads to supply problems. In fact, perhaps the problem is car supply. For example, during the period June 15 to June 30 of this year, the North Central Grain Shippers had 3,794 cars on order, roughly one-third of which were supplied--and this in the so-called "off season." Our Federal Railroad Administration estimates that the odds are only one in three that any rail shipment will make it from origin to destination on a consistent schedule. So let me focus here on the car service issue.

Almost entirely, grain is shipped in "Big John" covered hoppers and traditional box cars (because some elevators aren't equipped to handle covered hoppers). These two types of cars, in fact, comprise one-half the total rail industry fleet (with the Big John hopper cars, so the industry advertises, representing a 50 percent capacity increase over the traditional box car).

Now, let's look at the demand placed on these cars. Department of Agriculture figures for production of wheat, corn, sorghum, and soybeans show a 22 percent increase in the period from 1960 to 1969--to an incredible 8 billion bushels. Dr. Stice pointed out in his recent paper on grain marketing that corn alone rose by 670 million bushels during that period. And in the State of Illinois soybean production was up almost 10 percent, while corn rose more than 35 percent.

Demand is clearly up, way up, but what about the car supply? AAR figures show an absolute decline from 1959 to 1969 of 200,000 cars (1.9 million to 1.7 million). To be sure some of the new equipment (for example, Big Johns) is coming in with a higher capacity, but nonetheless there has been a decline in units. The roads have been adding cars (105,000 freight cars in 1966), but the rate at which new cars are added has been declining. In 1968, the fleet was increased by 68,000 cars, the lowest annual total added in five years, and 1969 looks only slightly better. This is not to say that the railroads have not been spending money on equipment--they have--about $1 billion a year over the last decade for new rolling stock. But as prices go up, even a billion buys less than it did in 1964. (Over the last ten years, cost has increased 30 percent for like car capacity.)

What are the chances of this situation's improving? In 1969 rail working capital was $58 million, down from a 1963 level of $828 million. (And then there is the Penn Central.) In the years 1968 and 1969 only 60 percent of the railroad industry's gross capital expenditures came from depreciation and retained earnings (return on investment in 1969 was less than 3 percent), with the balance of the investment from borrowing and new issues. So not surprisingly equipment obligations from 1962 to 1968 ($2.5 billion to $4.2 billion) increased 68 percent. Almost any way you slice it, this is a pretty grim picture.

So what can be done? Well, I think there are a number of things, and one which provides all of us who are involved here several opportunities is the utilization of equipment. Here, I think a few statistics are appropriate. One of the government statisticians I talked about earlier has determined that the average freight car moves loaded in the line haul only 6 percent of the time. Or put another way, the ratio of total loaded car miles to total car days produces 33 miles per day. Certainly, there is room for improvement here.

How about grain inspection, for example? Prior to the 1968 Grain Standards Act, enroute inspection was mandatory. Among other things, this made for poor car utilization. Would it be possible to adjust rates, costs and operations so that preshipment inspection would work? On another tack, the Rock Island has recently initiated truck service for the short hauls from country elevators to larger terminals, thus requiring fewer stops and making possible longer rail hauls. Perhaps this will help. The AAR has just unveiled TRAIN (Tele-Rail Automated Information Network), a computer system which maintains for each railroad an inventory of loaded and unloaded cars, enabling shifting of surplus cars from one railroad to another to meet shipper car orders. This could significantly improve control over fleet deployment. You have already heard this morning about the Illinois Central Rent-a-Train.

The government has also been working on the railroad problems. Earlier this year, the Administration sent a rail passenger proposal to Congress which we anticipate will help improve the railroad financial plight. The way we see it improved earnings--and thus better equipment and improved service--will come about when the railroads are no longer required to maintain money-losing--freight supported--passenger service. And the Department supported the provisions of the 1969 Tax Reform Act which allow fast amortization of investment in short-supply rolling stock. This should provide an incentive for the railroads to purchase equipment.

Now whenever there's a problem, the inevitable government response is to initiate a study. Most people are pretty cynical about anything useful or positive ever coming out of these endeavors, and for the most part I tend to agree. But the study DOT is conducting into some of the economic issues involved in freight car distribution will be different or we'll have some new employees at DOT. We are going to find some answers to the technicalities of shortage questions. And vis-a-vis the question of mergers, the Department recognizes the need to consider the railroad industry structure and we are facing up to it so we can take a positive and informed role before the ICC when the issue arises.

The ICC, of course, is the government organization which has direct responsibility for car service as such. Now car service orders for two or three cars have never been much of a problem and have been carried out more or less by jawboning. But larger size and long-term deployments raise more serious issues, for example, when it's a question of peanut harvest needs in the South as opposed to the needs of the grain shippers in the North. The ICC's Ex parte number 241 addresses the problem by providing further enforcement of existing car service rules and developing a formula approach to determine the adequacy of car ownership by the various lines. Ex parte number 252, now pending before the ICC, would create a system of incentive per diem charges and would include explicit authority to get cars moving. Under this system excess payments would go only into new equipment purchases.

Meanwhile, at the Department of Agriculture, the CCC is feeling the heat and is looking for ways to ship more grain in the off season. There is no easy solution to this problem--problems of the country elevator operator can't be ignored--but they are working on it. And at DOT we have supported S. 2289, a proposal for resolving state discriminatory taxation. Again, this is not an issue devoid of controversy. The proposal could reduce state revenues but probably not much and certain special allowances have been suggested.

Gentlemen, the grain business and the rail industry are critical to each other. There are many problems and no single group or issue is entirely responsible for the difficulty. In short, there are things the grain industry could--and should--be doing. There are things the railroads are working on, and clearly plenty remains to be done. Nor can old "Joe Government" stand idly by. On the contrary, we need more action and foresight and less reaction and inaction.

I've told you some of what is going on in Washington, but I regard all this as merely a start. So, I would like to close with a sales pitch. Within the next half dozen months or so we are going to hold a Car Service Conference. We expect grain shippers, railroads, the ICC, our academic friends--in short, everyone who is concerned with the problem to be there. We're not doing this just for the fun of it. We want to make sure you really know what we are up to. And we, in turn, want to know what you are thinking so as to broaden our ideas and programs. We want to get your support where you think we are on the right track--I'm sure we'll get your opinions when we're not! Finally, I think the Conference could provide a very good device for getting us all on the hook to move ahead with this critical area of rail transportation. In effect, I think this poses a tremendous challenge as well as an opportunity for us all. I hope I shall see you all in Washington.