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DEPARTMENT OF TRANSPORTATION | NEWS

OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20590

37-DOT-71

EXCERPTS FROM REMARKS BY ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, CHARLES D. BAKER, BEFORE THE AMERICAN SOCIETY OF TRAFFIC AND TRANSPORTATION, SEPTEMBER 9, 1971, UNIVERSITY PARK, PA.

It's a pleasure to be here at this very timely meeting to discuss three topics everyone's talking about -- A Single Regulatory Agency, A Single Transportation Trust Fund, and A Single Transportation Company. To be sure, nobody seems to be doing anything yet -- but there is a great deal of talk and even some serious discussion!

Dr. Pashek and your Chairman Bob Dunn told me my remarks should serve as a keynote to the rest of the seminar. This means that I have both a privilege and a burden. The privilege is that I really don't have to tell you where I come out, in fact to do so would be both impolitic and impolite. However, it also imposes a burden. It means that I must restrain my normal inclinations towards expressing a high degree of personal opinion and avoid the fray which is sure to follow. So be it. I shall attempt to take the high road, while still hopefully saying something.

Let's look first at the Single Regulatory Agency. There is indeed much interest in this! For example: the Ash Report, produced by a Presidential advisory group, and since sent on to Congress; the distinguished Senator from Tennessee, Mr. Baker -- good name -- proposed legislation to study the matter; and these are just two of the myriad number of proposals.

But what are some of the pros? Why is anyone interested in the matter? One reason advanced is that one agency would assure comprehensive policy making and consistency of decision when jurisdiction of the present three transportation agencies overlap. For example, in international freight the ICC has jurisdiction over the domestic surface leg while the FMC has jurisdiction over seagoing vessels. In short, nobody has jurisdiction over through movements, and yet us transportation types are increasingly talking about through shipments. A second reason advanced for consolidation is that regulatory agencies presently may be in competition or conflict! Certainly their individual responsibilities are vis-a-vis their respective modes; i.e., the FMC with maritime, the CAB with aviation, and the ICC with domestic surface transportation.

And there are some conflicts. For example, short-haul air carriers and intercity buses compete, while air cargo is in some competition with trucking, and to a lesser degree with rail.

A third argument less openly stated but nonetheless real is that now is the time to change and streamline these organizations that have been around in one form or another "since the wet Spring of '88." Part 1 of the Interstate Commerce Act got the ICC started in Rail Regulation in the last century. Part 2 came in the Depression with Parts 3 and 4 following. The FMC goes back in one form or another to World War I while the Civil Aeronautics Board has been around in various forms for over 30 years. And few people are truly happy with the status quo. Consumer advocates are attacking the agencies for bowing to those they are supposed to regulate. Some members of Congress seem to be implying that the ICC should be blown up and any residual ash be swept under the DOT rug. And, to be sure, there are functions (now) handled by the agencies which with the advent of DOT perhaps more properly belong in the Executive Branch than an independent agency (e.g., local air carrier subsidy).

On the other hand, some of these propositions may be more apparent than real! What are we as a nation really looking for? Simply put, we seek a national transportation system to provide effective service to shippers and travelers, which takes cognizance of the total impacts, social, environmental, and what have you.

A fine and noble statement that, but how do we propose to do this? We can't, for example, expect regulation to solve all the railroad problems. It's as much a question of what kind of transportation service we want and where the money is going to come from to keep up the system as opposed to how well they are regulated. Thus, a Penn Central disaster can't be laid solely at the door of economic regulation or the organization thereof. Further, the amount of overlap between agencies -- buses and short-haul air carriers -- isn't all that great -- at least not now. And jurisdictional conflicts/disputes are not really common.

These are just a few of the issues your panelists will cover. Clearly as time goes by, some increased coordination and realignment of agencies will be needed. Air-surface freight, high speed ground transportation for passengers, and really, through international freight movements presage such needs. And as the substance of regulation is modernized -- a pet project of mine -- further organization changes will be demanded. So I <u>will</u> venture an opinion. Organizational changes will come, surely. But how fast, and how should we move? This is the problem that my old friend Bill Smith and others will address!

Your second major topic is the Single Transportation Trust Fund. One might first consider just what is it? Is it one fund to be shared by all modes of transportation? Does this mean Federal Maritime programs and the Corps of Engineers programs mixed in with local air carrier subsidies, highway, airport, and urban transit grants? Perhaps you and your panelists may say so! Perhaps, more likely, it's a highway, urban transit grant amalgam with maybe some highway safety grants and airport money thrown in. And what is the appeal of that?

Well, first off, A Single Transportation Trust Fund would give flexibility to transportation decision-makers for use in: airport development, urban mass transit, interstate and ABC highway programs. Certainly the simple existence of highway funds should not be grounds for building roads in Topeka if airport development would benefit the citizen most.

On the other hand, who decides? Do you want Uncle Washington to do this, given his record of unparalleled success? Or is it better to vest decision-making in local -- on the scene -- hands as transportation revenue-sharing would do?

Another issue your panelists must consider is what would really take place? Would projects be selected on widely varying bases from city-to-city and state-to-state, for example, pure politics in one situation and pure economics in another (where are the pure environmentalists?). And would such variation in criteria be bad?

There is also an equity problem that should not be overlooked. The gasoline tax is a highly regressive tax. In short, low income groups pay out a higher percentage of their income for such taxes than do higher income individuals. Now if the benefits essentially go right back to the payers of the tax, such regressiveness is not altogether frightening! However, if they are more widespread or if they wind up benefitting higher income segments of the economy, this may be cause for alarm. The Highway Trust Fund is fed in heavy measure by the gasoline tax. With flexibility, how is such application to be controlled? Perhaps the three distinguished representatives of rail, barge, and air will gang up the highway man when the panel addresses this question.

The third panel discussion deals with A Single Transportation Company. Surely this is logical because there are so many forms of transportation, and (freight) transportation is becoming increasingly intermodal! To name just a few there are: TOFC (trailer on flat car); air cargo (air-truck); even some rail-barge combinations; certainly rail/truck and maritime! A single "integrated" company would be wholly responsible to the shipper for expediting, liability, and the like. And anyone who has heard my colleague Bob Redding on these subjects knows that next to motherhood, they came first.

But should we go in this direction? And perhaps more importantly, should we go now? First off, who would acquire whom? Railroads could, and no doubt, would acquire truck lines and barge lines, but, of course, they have a historical profile as being the "town bully" and would they just set up "fighting lines" and bulldoze the competitor? The Panama Canal Act of 1920 was set up to stop such a practice. Personally, I doubt it. But maybe more to the point, is such diversification just where railroad management should be looking right now. Or should they spend their time rectifying the antediluvian hangovers from the days of Jay Gould? And would the claimed benefits -- to shippers, travelers and consumers be realized? If so, the arguments for proceeding are very real. If not, more caution is indicated.

Gentlemen, I have cited a few -- and only a few -- of the pros and cons of "singleness" in transportation. I have not commented on the political interest group aspects and ultimately, of course, one must consider what is feasible quite as much as what is (theoretically) desirable. You are addressing some controversial and important issues. The Department of Transportation will follow these proceedings with interest.

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DEPARTMENT OF TRANSPORTATION

NEWS

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WASHINGTON, D.C. 20590

41-DOT-71

EXCERPTS FROM REMARKS BY ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, CHARLES D. BAKER, BEFORE THE DELAWARE VALLEY REGIONAL TRANSPORTATION CONFERENCE, SEPTEMBER 14, 1971, PHILADELPHIA, PENNSYLVANIA

I was initially offered a ride from the airport by our hosts, a gesture that I naturally appreciated and accepted. Later, I was told to take a cab -- construction at the airport has made it nearly impossible to get private cars anywhere near the entrance. I now feel lucky to have gotten here at all. This situation, I am sure, is only a temporary hardship to be endured and well worth the eventual outcome. But it points up that this airport improvement, like transportation investment generally causes disruptions.

Today we are talking of transportation issues and needs. Very appropriate. Where else but in the home of the Penn Central would the impact of transportation on the economy be so well known and understood.

Philadelphia is often the subject of jokes by jaded New Yorkers or elusive Washingtonians -- which brings to mind the reported W. C. Fields epitaph, "All things considered, I'd rather be in Philadelphia!" -- but the Metroliner rings a bell of distinction and some of us in Washington have come to know Philadelphia a lot better since that service started!

Now, I did not come here today to make light of a tragic and grave situation, the Penn Central. I did come to talk to you about transportation -- how important it is to you, your community, your economy, your future.

Transportation Factors strongly impact on the regional economy. Philadelphia is the fourth largest metropolitan area in the country -- and known for much more than lawyers, oil refineries, and its port. It's really a diverse economic region of steel mills, electronics manufacturing, food processing plants and the like, utilizing all forms of transportation. In short, Philadelphia and this larger area is strictly Big League.

Being a mature region (read "older") the ability to provide all the services particularly transportation, to these industries will go a long way toward keeping what you have, as well as bringing in the new.

So what transportation do you have? Well the Philadelphia area is the fourth largest port in America. It's a major rail center, and with the Pennsylvania turnpike and I-95 in its highway structure, it has long been an important trucking center. The extension of your International Airport is an example of the awareness you have of transportation's importance to your growing economy.

Now it's your job to ensure that all forms of transportation are available with sufficient capabilities and capacity to assure the efficient movement of people and goods and the achievement of your local objectives. It's our job in Washington to help you where we can.

The foregoing makes good copy, and is generally only beatable by motherhood. In fact, things don't always work out quite as we'd like and you people know only too well the problems. For example, when New York has bad weather and planes are stacked 30 deep in the air and on the runway, you feel it in Philadelphia's air traffic. Your rush hour tie ups, I'm sure are comparable to (worse than some) other cities along the East Coast. And for all the improvements at your airport, it always seems people who want to fly decide to do it at the same time commuters want to go home, making airport access a major problem that can negate all the improvements at the terminal. And alas, this is by no means a complete list of problems.

For those and more reasons -- you know you can't afford not to worry about transportation. But let's get more specific.

As the second largest region and the center of the Northeast Corridor, which stretches from Boston to Norfolk, you are already facing increasing demands for transportation services as a result of an expanding, interdependent economy. Previously, the panacea for all transportation problems was to lay more concrete runways-highways -- you name it. Now this is no longer possible, nor even wise. Sooner or later we simply run out of space on that route.

And rising concern for the environment has led to opposition to I-95 -- here, just as in every city it runs through. The challenge you face is to preserve the city and still put into effect a good transportation system.

Another problem is one of technology and port operations. Philadelphia may be losing out to others as the merchant marine switches from breakbulk to container, and resorts to legal action to restrain the inclinations of the market place are often simply short term delays of the inevitable. Clearly over the long run, you have to make your port economically advantageous to use or see it's volume decline.

The superport at the mouth of the Delaware Bay looks unlikely now, but the 80 foot draft (and more) supertankers and other bulk cargo vessels are coming, and somewhere along the East Coast a port probably will be developed to handle this vast trade. What does this mean to Philadelphia?

These are some specific local issues affecting your region. Let me describe for a minute some of your challenges and opportunities in an even broader context.

The Northeast Corridor encompasses 2% of the nation's land surface and contains 22% of its population. Given population growth, it's obvious that over the next 10-20 years a real effort will be needed to improve the transportation system throughout the region, or else we'll see transportation literally slow down and costs literally rise! However there is hope. This week, the Department of Transportation will publish its 5-year long Northeast Corridor Study and Recommendations.

The NEC demands great volumes of movement between subregions but air mode faces capacity limits. Highways are all clogged as one nears the metropolitan areas. Rail is to some degree undergoing experimentation. Philadelphia has new runway under construction, but short-haul air corridor traffic strains capacity. Is there an answer? Our studies suggest there is.

The rail mode has excess capacity in the system now -- it can move a lot more people with little additional strain on the system. This means low incremental cost -- once you have a train running, it costs very little to add more cars to carry more people. Systems like the Metro have many advantages. Individually powered units allow flexibility of the number of cars, door to door time within the NEC in major cities is comparable to that of air and better than with the private auto. Speed capability of 160 mph can be reached if roadbed is upgraded to take it. And even greater advances in the rest of this century are possible. New ground technologies, air cushion vehicles, higher speed rail, etc., are all possible at capital investment lower than that for conventional modes.

Now I call this report to your attention for two reasons. First, it is one of the few times anyone has taken a multi-modal, broad-region approach to total transportation problems. And I think the results are illuminating. Second, without real local/area interest and support this kind of analysis is meaningless. In short, it's going to be largely up to you and others like you whether or not anything materializes.

Recognizing the existence of broad regions like the Corridor, it's clear that Philadelphia and the Delaware Valley region are impacted upon by the situation in and along the NEC. But there is much that can be done within your region itself and it appears you have made a good start in several areas.

SEPTA (Southeastern Pennsylvania Transportation Authority) and DRPA (Delaware River Port Authority) have done a lot to ease some of the problems of congestion.

My good friend John Bailey, now out at Northwestern, was in the forefront with many ideas. Way back in 1958, when John was with the Urban Traffic and Transportation Authority he looked at transportation service as a social function of government as well as an economic fact of life. And he sought to maintain adequate service levels. As deputy manager of SEPTA, John carried his ideas further, and now Philadelphia and the surrounding region probably rank in the forefront of American cities that are solving their own urban transportation problems.

The Lindenwold line into New Jersey is certainly a bright spot for DRPA. Faced with a crowded Ben Franklin Bridge some years ago, you did not try the old solution of building a new bridge. You did a new thing -- you raised tolls. This served two purposes: (1) underwrote the bond issue for building the new rail transit line; and (2) encouraged some motorists to use the new line rather than clog up the streets with their cars. The net result, a successful new transit operation and no new bridge. Perhaps one would debate the revenue sources or what have you. What one can not debate is that DRPA responded to a problem with a new idea.

For all the good things your two agencies are doing, more and better cooperation between city and county officials could improve on this impressive record. In fact, such cooperation is a must if SEPTA is going to serve the growing demands upon it.

And while the Delaware River Port Authority is one of the more aggressive such outfits in the country -- this region got the Fairless Works of U.S. Steel largely because DRPA prevailed upon the Corps of Engineers to deepen the channel so deep-draft vessels could move further up the river -- other ports to the north and south are increasingly alert to the trend toward piggyback and containerization of freight. You may be in danger of losing out to the ports that have in place the capital intensive facilities for handling freight in this manner. After all, ship operators want to eliminate multi-stops at several ports along the coast. The high cost of LASH and container ships virtually requires that they spend as little time in port as they can get away with.

This conference shows that you are aware of the importance of transportation to your region. Under sponsorship of the Greater Philadelphia Chamber of Commerce you can bring together the economic muscle of the area. I think it is obvious that transportation is not popular with many people today. Whether it is a new highway, bridge, airport, or any other capital project, someone will complain about noise, air pollution, breaking up neighborhoods, or what have you. And in Washington, the mood is not to come along saying we know what's good for you and ram it down your throats. On the contrary. Localized decision-making is a watchword of this Administration.

So clearly you will have to make your decisions at the local level, and that means considering all viewpoints of all parties that have an interest in a project. Only when there is a consensus, or you can show that all views have been fairly considered, can things go ahead.

This is going to make it harder to get major new projects underway in Philadelphia or any other metropolitan areas, but it means we'll all be considering issues too long ignored. And so you and I are going to have to find new ways to provide increased transportation services that truly serve the people. Gentlemen, and ladies, you, and I have our work cut out for us.

DEPARTMENT OF TRANSPORTATION

NEWS

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42-DOT-71

EXCERPTS FROM REMARKS BY ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, CHARLES D. BAKER, BEFORE THE NEW JERSEY CITIZENS TRANSPORTATION COUNCIL, SEPTEMBER 22, 1971, NEWARK, NEW JERSEY

I find this an especially opportune time to be speaking to you. Not only because of National Highway Week (don't be slighted all you Frank Turner fans out there), but also because of the NEC Report -- which was officially released last Wednesday by the Secretary.

I'm sure you've all read about it in the press and are perhaps familiar with it to some extent by now! If not, I strongly urge you to examine it!

It's a result of a 5-year long study by the Department with recommended actions necessary to resolve your future short-haul intercity passenger transportation problems in relation to the NEC region, of which you're smack in the middle!

Now New Jersey is famed as the Garden State -- but not for much longer -- if we keep pouring concrete. "Where Have All the Flowers Gone?" They'll soon be under 16 lanes of the New Jersey Turnpike! But I didn't come here to joke. I came to talk of economics and transportation -- or more important -- communities and transportation!

But let's get more specific --

What are the transportation factors that impact on your regional economy? Well first off, New Jersey is a leading industrial and highly urbanized state lying between two of the most congested metropolitan areas in the Nation, Philadelphia and New York. Then there is the fact that New Jersey ranks 7th nationally in industrial output!

It's third in percentage of people employed in manufacturing and Newark, being the largest city in New Jersey, serves as the main center of commerce, finance and manufacturing. As to employment location, about 6 out of every 100 employed persons commute to work in NYC or Philadelphia.

The State ranks high in production of machinery, metals, processed foods and textiles. So it's quite obvious that with all that production going on and your central location all forms of transportation are in high demand.

Now in this context it's important to recognize that your ability to provide all services, particularly transportation to these industries will go a long way toward keeping what you have, as well as bringing in the new.

OK, so what transportation do you have?

New Jersey area has extensive commuter service via PATH, CNJ, Reading and PC but the fate of CNJ is unknown at the moment?

New Jersey has extensive port facilities at Port Newark, on Raritan Bay, and along the Hudson and Delaware Rivers.

In proportion to area, New Jersey has the most extensive highway system in the U.S.

The recent extension of Newark airport is an example of your awareness of air transportation's importance to your growing economy.

So what does this add up to? New Jersey is diversified and thriving! It needs transportation. So far, so good. But there is more. It's your job to insure that transportation responds to economic demands, to needs and to local community objectives! Now you know your needs better than Washington does. Our job in Washington is to aid and assist -- not lead and direct! And the President's revenue sharing proposal makes clear the Administration's commitment to local decision-making.

Good stuff, the foregoing, but problems exist. For example: a New York airways jam equals a stack in Newark! At five p.m. there are major rush hour tie-ups in Newark, Jersey City and the Delaware River Bridge! (Why is it that flyers and commuters all go at the same time?)

Now this is not a complete list! And for those and more reasons you know you can't afford not to worry about transportation. But let's get more specific.

This area lies in the direct path of the NEC, which stretches from Boston to Norfolk. It is already facing increasing demands for transportation services as a result of an expanding interdependent economy. Previously, the panacea for all transportation problems was to lay more concrete runways, highways, you name it. Now, this is no longer possible, nor even wise. Sooner or later you simply run out of space!

Rising concern for the environment has led to the adamant opposition by some groups, of a proposed site for a 4th jet port. The challenge you face is to preserve the community and still put into effect a good transportation system.

Another problem is the New Jersey Turnpike. Granted it's a success, but do you really want it expanded to 16 lanes? Or should you take the advice of the NEC Report and begin immediately to investigate the potential of existing transportation systems, i.e., under-utilized rail system.

Some of these local issues affect the whole region, so let me describe some of your challenges and opportunities in an even broader context!

The NEC encompasses 2% of the nation's land surface but contains 22% of its population. Given expected population growth from 44 million to 52 million, over the next decade it's clear that a real effort will be needed to improve the transportation system throughout the region or else we'll see transportation literally slow down and costs literally rise! Already in the NEC we have

deteriorating highway trip time --
urban and critical point congestion!

deteriorating air trip time
airport and terminal congestion
access route congestion
air space congestion!

And yet we have underutilized rail potential! Increasing public resistance to new highways! And rails and airlines in some financial trouble, no small part of which is due to greater New York.

The NEC demands great volumes of movement between subregions, but the air mode faces (has reached?) capacity limits!

Highways are clogged as one nears the metropolitan areas. Query: Is there an answer?

The Department's NEC study suggests there is. The railroads have excess capacity in their systems now! They can move a lot more people with little additional strain on the system.

This means low incremental cost -- once you have the train running, it costs very little to add more cars to carry more people. And systems like the METROLINER have many advantages. Individually powered units allow flexibility of number of cars. Door to door between major cities in the NEC is comparable to that of air and better than with private auto. Speeds of 160 mph can be reached if roadbed is upgraded to take it. And considerable greater advances are possible in the period 1980-1990 with such new ground technologies as TACV, VHSR or perhaps VTOL and STOL.

Secretary Volpe released the NEC Report for discussion and hopefully implementation! But it's up to you in the States and localities to really decide. We in Washington will do all we can to help, but without your interest and pursuit this kind of analysis is meaningless. In short, it's going to be largely up to you and others like you to determine if new high speed rail service et al ever materializes.

But quite aside from the corridor there is much that can be done within your region itself and it appears that you have made a good start in some areas.

I've been told that this group is working on a bond issue to support an eventual mass transit system. This kind of involvement is what is needed!

New Jersey has a history of transportation innovations:

- Phoenix was first steamboat to sail the Atlantic
- Juliana was first steam ferryboat
- First floating dry dock
- First ferryboat of motor vehicles (true intermodalism)

So you rate several kudos, but increasing cooperation between regional officials is needed. To be sure, the Port of New York Authority (finally) agreed at Governor Cahill's urging to build a mass transit system and DRPA has done a good job of connecting Philadelphia and New Jersey, but it's clear that the many regions and subregions of which New Jersey is a part must take a long joint look at the future.

The very existence and presence of your group here today exemplifies your avid concern in a balanced transportation system -- something that at this stage of the game is becoming an absolute necessity.

It's obvious transportation is not popular with many people today. Whether it be a new highway, bridge, airport, or any other capital project, someone will complain about noise, air pollution, breaking up neighborhoods, or what have you and rightfully so. As our recently issued statement of National Transportation Policy makes clear new issues are properly being recognized.

Chinese walls are no longer tolerated. The environmental social impacts are real concerns. So clearly you must lead and in so doing must involve all the community interests. The lead is with you and transportation is being faced with more issues and challenges than ever before, but with the opportunity to truly serve communities as never before. Thus the challenge is up to you in this room! We in Washington will aid and support you. But the ball is in your court.

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DEPARTMENT OF TRANSPORTATION

NEWS

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48-DOT-71

REMARKS BY CHARLES D. BAKER, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS BEFORE THE "FINANCIAL PROSPECTS FOR TRANSPORTATION" CONFERENCE OF THE TRANSPORTATION CENTER AT NORTHWESTERN UNIVERSITY, SHERATON-O'HARE HOTEL, ROSEMONT, ILLINOIS - OCTOBER 18, 1971

It's a pleasure to be here in Chicago with you tonight. Coming into O'Hare is always an adventure. The airport is so vast - the hotel is only five minutes from the terminal, but unfortunately, the terminal is 30 minutes from the planes! As most of you know, O'Hare is one of the major airports that still has traffic limitations in effect. If you have ever come to Chicago on a day when a snowstorm is coming off the lake, you know what I mean. In fact, I was told just before stepping up here that Amelia Earhart has been found at last -- in a holding pattern over O'Hare.

But seriously, you are here for this three-day seminar to consider the financial prospects for transportation, and that really means you are interested in doping out the earnings prospects of private common carriers. Private common carriage encompasses a lot of transportation -- railroads, airlines, barge lines, trucking companies, pipelines, and the merchant marine, not to mention the NVOC's (non-vessel operating carriers/freight forwarders).

You have already heard from no less an authority than Yale Brozen on the economic outlook for transportation, and from Charlie Rehmus, Ray Beagle, John Hiltz, and Percy Wood on labor and transportation. You could probably hold a separate three-day seminar on just that. Tomorrow and Wednesday you will hear discussions of the prospects for individual industry segments. I wish I could stay for the whole program, and I will, at least, get a full report from Charlie Swinburne of my staff, who will stay.

What I will attempt to do is provide some insight into this Administration's policies that will affect earnings and operations of common carriers. Clearly, investment programs are relevant. The President's Airport and Airways Development Act of 1970 is providing a minimum of $280 million annually for runways, lighting, and safety aids at airports, and hundreds of millions for increased safety and greater capacity for the airways. Who is to say the trucking industry and the inter-city bus operators have not benefitted greatly from the highway program. Certainly not the railroad executives I know. But, don't think these industries are getting a free ride from Federal programs. They aren't. The airport and airways program is being funded by a host of new user charges - taxes, if you will. And the gasoline taxes and other taxes paid by truckers, certainly pay for a lot of highway mileage.

The shallow-draft industry has certainly benefitted from the public investment in waterways, with more like the Tennessee-Tombigbee and the Arkansas-Verdigris opening to navigation all the time. And if some Texas Congressmen have their way, Dallas will be a seaport via the Trinity River some day. This investment in inland waterways amounts to $150 to $200 million annually.

And of course, don't forget the President's Maritime Construction program, intended to put the American flag really back on the high seas by encouraging the construction of 300 new, efficient, vessels over the next 10 years.

Important as these money programs are, I think maybe even more important is Government's approach to (economic) regulation of transportation operators. (I believed that even before George Shultz put a gun to my head.)

Thus, given constraints of time let me focus on that particular area, while admitting that there are many other governmental programs and policies that are of considerable consequence vis-a-vis transportation.

What's really bugging us about regulation as it stands? I think the first question to ask is "Are we happy with national transportation as it presently exists?" I for one am unhappy on several grounds. The railroads are certainly not a healthy industry and air transportation is also under some strain. Trucking is in better shape, but I think it's fair to say that there are some limitations on the earnings and general reinvestment capability being seen here as well. Maritime? Enough said! In fact, the only parts of the industry with a decent ROI in 1970 were the shallow-draft and pipeline segments -- the least regulated incidentally.

Over the past four years, general rail rate increases have aggregated 33 percent. Is the shipper/consumer getting more for his money? I think not. Box car shortages and poor service have long been an issue, but in recent years service problems have certainly become exacerbated. Our wizards estimate that only one railroad shipment in three reaches its destination on schedule. And that's not considered good service by any measure I know! I don't think the cross subsidy engendered by the existing (distorted) rate structure much benefits the shipper or consumer either. Some shippers pay high rates and in effect are "subsidizing" others who pay low rates. Nor has there been any significant new technology in the trucking or rail industry over the past several decades. Trucks still have environmental and safety problems and very little rail has been electrified. The AAR's TRAIN is great in theory, but unfortunately remains just that.

What does the future hold? Increased demand up 50 percent or more in the next decade -- all this for a transportation system already creaking at the seams. From where I stand the transportation industry is in bad shape and change is needed. The Interstate Commerce Act was great stuff in its day, but so was John L. Sullivan! Perhaps the Act, like John L., could use some updating! I submit that if regulation were working well, we wouldn't have all these problems. Some perhaps, but not the situation we have today. We'd have a transportation system more nearly equal to what the nation needs. But we don't have the kind of system we want and in my view regulation is one of the reasons why!

Over the past 20 years the railroad share of the total freight ton miles has decreased from 56 to 41 percent of the total whereas that carried by trucks has increased from 16 to 21 percent, by pipeline from 12 to 22 percent, by inland water from 5 to 10 percent. One would expect a similar trend in share of revenues but such is not the case. The rail share of the total has declined from 65 to 44 percent of the total, but the trucking share has increased from 28 to 49 percent, significantly more than its share of the total freight. I could go on with other indicators, but any way you slice it, revenue and tonnage trends are marching to differing drummers.

None one thing to really worry about is that because the rail industry as a whole is in such bad shape, there is a very real prospect of nationalization -- or at the least a very heavy subsidy -- of the railroads. What does this mean? As far as I know there is no nationalized railroad which breaks even, let alone makes a profit. They all cost their taxpayers a lot of money. In Germany, the operating deficit of the national railroad is partially subsidized with a tax on truck freight. The Japanese National Railroad has lost \$2 billion since 1964 and has an accumulated debt of \$1.6 billion. (Automobile dealers and users were asked to contribute new taxes starting in FY 1971.) Frankly, I don't think any of us want to see that such things happen in this country. And I should point out here that historically nationalization of the transportation industry has not been limited to the railroads. France nationalized its railroads in 1936. England nationalized its railroads in 1946 and some inter-city trucking as well, and Canada nationalized parts of its rail and trucking system as early as 1919.

Okay, let's assume that maybe a relook at the venerable old Act is in order. What are the options available? On the one hand, we have my old friend Dick McLaren's sweep-the-boards clean approach. On the other we have Bill Bresnahan who is somewhat less favorably disposed to change.

I think clearly some changes <u>are</u> called for. For example, I find plenty of evidence that we should give significant consideration to the whole question of rate-making flexibility, and I think both entry and exit warrant reexamination.

Entry is hardly a major problem with the railroads (only in Texas), but exit or abandonment certainly is. The whole structure of our transportation industry has changed over the past 30 years, and yet the railroad route system has remained basically the same. Would trucks pick up in the long run if the railroads dropped some of their excess plant? Good question!

What about entry? It's hard to say precisely how easy it is now. There is certainly some de facto coming and going in service regardless of what the certificates say.

Opponents of easier entry say that open entry would mean almost certain chaos and long-term service loss to shippers. To the extent true, this is certainly to be avoided. But how? Do we retain fitness requirements? On the other hand, do we want less commodity restriction or fewer geographic limitations?

What about intermodal (or common) ownership? I think DOT invented the word intermodal -- what does it imply? Certainly of relevance here is the question of what's happening to through-freight transportation. Is it time we started thinking in terms of integrated transportation companies? Can firms now provide the kind of service that shippers want or are the laws and regulatory processes inappropriate?

So much for the issues and questions. Let me tell you what I think about it. First off, I think some flexibility in pricing or rate-making is required. A couple of months ago I testified before Senator Howard Cannon's Aviation Subcommittee that the Department favored a "zone of reasonableness" within which the airlines ought to have some independent authority to go up and down. Generally, I have the same view vis-a-vis the surface carriers. Why? Very simple. Regulated carriers are now constrained in responding to market and cost changes and the strains are showing. (The worst results are in the most price regulated industries -- rail and air -- while the best results are in the least regulated -- truck, barge and pipeline -- in that order). Innovation in pricing can be the subject of endless hearings while shippers wait and fume. And of course, the application of rate regulation varies widely from 100 percent regulated rail to 80 percent unregulated barge. The most generous thing one can say about that aspect of regulation is that it is out of balance. But just taking off the wraps could well throw the baby out with the bath water. Some control should be exercised. For example:

-- Rates should not be preferential or discriminatory.

-- Where a shipper faces essentially monopolistic service, the ICC should be empowered to establish rate maximums.

-- On the other side of the coin, I don't think a carrier should be allowed to set rates below variable cost or something similar. (Lower rates mean either predatory pricing or "cross subsidy" and I'm against both!)

-- Hidden (but real) cross subsidy from a distorted rate structure is a thing to be abhorred.

-- Additionally, I think rate freedon should be introduced gradually so that carriers and users have time to adapt to a new structure.

So much for rate-making. I'd also favor some revision in the regulations governing exit. I mentioned earlier that rail system mileage has diminished only slightly since 1940 even though the rail share of the market has decreased and the highway and pipeline systems have been greatly expanded -- plus the fact that rail passenger service is now a minor factor. Much of the rail in existence is light-density branch line although the railroads' major efficiency advantage lies in the long-haul movements. It is interesting to note that the rail carriers in greatest difficulty have substantial amounts of branch line relative to main line, whereas this is decidedly less true of the "strong" carriers. Abandonment of some of this excess plant would enable railroad management to concentrate resources where they are most efficient. Again, however, there should be some restrictions. Carriers must be able to prove that the line is unprofitable and a suitable time period must elapse between announcement of intention and actual fact to allow the shippers and other carriers to adjust. Now, as a legal matter, abandonment procedures sound just about like that now. As a matter of fact, the process is something of a mess, as much due to lack of abandonment criteria as anything else.

Closely related to revision of exit rules and more flexible pricing is the question of entry. With abandonment of light-density branch line and as rail rates become more cost related there should be an increased demand for (substitute) trucking service. Heavy restrictions on the supply of service don't wash very well here. Just how restricted is entry? As I mentioned, I'm not altogether sure, although in some growing markets new carrier entry appears to have been restrained and existing carriers have been less than adequate in responding to changes in traffic demand. Witness the growth in private carriage. Many large shippers have had to acquire their own (or contract) carriage -- regardless of the apparently increased expense.

However, having said all this, I still do not advocate "decontrol!" Rather, I'm for updated regulation. I think the ICC should continue but perhaps modify its certification process. Fit, willing, and able are certainly appropriate requirements for common carrier applicants, although I think less well of overriding concerns about the adverse effect of potential new carriers on the traffic of existing carriers if the existing carriers are not cutting the mustard. Real disruption of service resulting from "over entry" is unquestionably a major issue. Where that is the likely case, entry should be handled judiciously. And as implied I'd like to think about special cases such as the rail abandonment situation.

Intermodal ownership? At this point in time, it's about as popular and as politically feasible as the waterway user charges which the Executive has been sending to the Hill "every year since Millard Fillmore." In truth, I think intermodal or common ownership will come. I think the need is only just starting to arise. The railroads have a lot of house cleaning to do before they get into the barge or truck business. And so I look for this to be an issue in five or ten years, but not now.

Now what do some of my propositions mean? It could mean more price competition and it would mean rates will be more in line with cost --up and down -- than "value of service" as they are now in many modes and movements. Overall the cost of doing business should drop as load factors increase and empty back hauls decrease. There would be less cross subsidization of unprofitable routes with profitable ones or of cross shipper subsidy.

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STATEMENT OF CHARLES D. BAKER, ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON AVIATION OF THE SENATE COMMITTEE ON COMMERCE REGARDING S. 2423, ON TUESDAY, OCTOBER 19, 1971.

Mr. Chairman, members of the Committee:

The Department of Transportation welcomes this opportunity to testify in support of increased regulatory power for the Civil Aeronautics Board over international air rates and fares. As you know, the need for such increased CAB authority was recognized by President Nixon last year, when he approved a Statement of International Air Transportation Policy in June, 1970. Developments since then have only served to underscore the need for greater U.S. authority in this area.

The bill which you have introduced, S. 2423, would indeed give the CAB added authority. And in our judgment, increased regulatory authority is needed to implement our stated objective:

> "The U.S. should work for the broadest range of potentially profitable services designed to appeal to the broadest consumer market and based on the lowest cost of operating an efficient air transport system." Statement of International Air Transportation Policy, July 22, 1970, at p. 9.

However, we believe S. 2423 would give the Board more new authority than can now be justified. In summary, we favor the following additional authority of the CAB:

(1) The CAB should have the power to suspend and reject the international rates and fares of U.S. and foreign scheduled

and charter air carriers. This would not include the power to fix or set such rates.

(2) The grounds for the exercise of this authority should be such as to prevent the use of excessively high or low fares, or those which are unjustly discriminatory, and which would have a substantial adverse effect on commerce.

(3) When the CAB proposes to suspend or reject a rate, the President should have the power to approve, disapprove, or stay the Board's proposed action.

The Department's concern about our international air fare situation is no new or occasional thing. Secretary Volpe has for some time been involved in trying to promote a fare structure designed to move all members of the traveling public at the lowest possible cost-related fares. A review of this Department's previous activity in this area, beginning with the Secretary's speech at the Paris Air Show in 1969 and concluding with the Department's recent comments to the CAB on the various student/youth fare proposals, is submitted for the record. Through all these Department actions run certain common themes which are relevant today:

(1) The inordinately complex and outdated international fare structure does not adequately reflect the economies of jet equipment. Under the present structure, for example, the amount many travelers pay is determined by length of stay, type of ground accommodations purchased, and ability to associate with a group.

(2) We have urged the development of a cost-related fare structure, where fares would reflect a "taper" principle. For example, fares per mile would decline with distance, and there would be a specific charge for passengers making costly stop-overs.

(3) The carriers have provided insufficient justification for the continual increase of normal economy fares. Evidence suggests that some of the carriers' present financial difficulties are caused by a substantial shift of their higher yield normal fare passengers to very low promotional fares. And those passengers that do pay the higher fares may in some cases be subsidizing the discount passengers. We favor a reduction in the dollar spread between the two classes of fares, and appropriate limitations on the use of promotional fares, i.e., to fill excess seats in off-peak periods.

(4) We are opposed to fares which favor a special segment of the public, such as student/youth fares, because they may be unjustly discriminatory.

(5) Despite having found fault with various IATA rate proposals, we generally have not advocated that the CAB disapprove them. One major reason has been the inability of the CAB to deal effectively with the consequences of such a disapproval: disapproval would result in an open rate situation

where the IATA carriers would either file the same fares anyway (as has been long true in the Pacific) or the carriers would engage in rate competition, possibly leading to the use of predatory, discriminatory, or non-compensatory rates.

So much for the past. Let me now address the issue at hand. The failure of the IATA carriers to agree at Montreal has led to the possibility of an open-rate situation over the North Atlantic. The competitive pressures that have led to this are clear: the introduction of larger equipment by the scheduled carriers has depressed load factors and intensified their competition among themselves; and the competition between charter carriers and scheduled carriers continues to intensify.

Given these competitive pressures, and with an open-rate situation facing us next February 1, we are concerned that scheduled and charter fares may be cut to the point that yields for both types of service could be unduly depressed. Rates may be offered that unjustly favor certain groups -- such as the young, or the aged. Rates may be offered that are predatory -- intended not only to compete, but to eliminate competitors -- and which may be subsidized -- perhaps through higher fares charged to certain segments of the traveling public. We see all these possibilities, and we know that the CAB's present authority to deal rapidly and effectively with such developments is simply inadequate. The Board cannot suspend an international rate pending hearing and investigation and the Board cannot reject an international rate on the ground that it is unduly low or excessively high.

Our concern about the rates to be offered in an open-rate situation over the North Atlantic is supported by our analysis of the rates which the carriers have already expressed a willingness to use: one fare package which was almost adopted at Montreal, and one filed by the German airline Lufthansa after IATA failed to reach agreement.

The Lufthansa package is a simplified fare package containing eight basic fares, five of which are substantially below current comparable fares. Lufthansa proposes reductions in the normal economy fares of between 15% and 25%; reductions in the excursion fares of between 24% and 45% and reductions in the group inclusive tour fare of 35%. The Lufthansa proposal continues the first class fare at the existing level, and offers youth fares with a slight increase in the peak season.

The Montreal fare proposal, on the other hand, is a more complicated package than either the Lufthansa proposal or the one that exists at the present time. Montreal contains seventeen basic fares with additional surcharges added for travel during certain periods. The Montreal proposal contemplates modest reductions in the existing group inclusive tour fares and affinity/incentive fares, and the introduction of three new fares: a winter group inclusive tour fare; and an advanced purchase fare (or APEX, as it is called) for the off-peak and peak seasons.

What then would be the financial effect of each of these two fare packages on the scheduled carriers? Two U.S. flag carriers, Pan Am and TWA, have indicated to the Department that the Montreal fare proposal would bring an improvement in net revenues over the existing fares, with modest increases in traffic, but that the Lufthansa fare proposal would bring in substantially less net revenues than existing fares produce, with substantial increases in traffic. They estimate that probably one half of the increase in scheduled traffic under the Lufthansa package would be diverted from charter services. No foreign carrier has given us any similar revenue analysis. Our own analysis confirms the statement of U.S. carriers that the Lufthansa proposal would yield insufficient revenues to match existing levels, while Montreal would result in some revenue improvement.

Of course, we find no fault as such with a decreased level of revenue for the carriers, flowing from lower rates for the travelers. We favor "air services available on the lowest economic basis to the widest possible market." (International Air Transportation Policy Statement, p. 9) But given the financial posture of some international air carriers today, a predicted drop in revenue certainly raises the question as to whether the rates are compensatory or prudent for the long term viability of the international air structure. We have no certain answers here, because we have not been able to acquire the relevant cost data. But, to take Pan Am as an example, we estimate that the use by Pan Am of the Lufthansa package could result in $26 to $38 million less revenue in a 12-month period than Pan Am's current fares are producing. Since Pan Am posted over a $45 million operating loss for their Atlantic Division for the 12 months ending June 30, 1971, the non-compensatory nature of the Lufthansa package -- as far as Pan Am is concerned -- is certainly suggested.

Let me turn to other aspects of these fare packages which warrant attention.

It appears that both the Montreal and Lufthansa fare proposals are designed to attract a substantial volume of charter traffic to scheduled service. Certainly, competition for this bulk passenger market is wholly appropriate. But it can be expected that the charter operators (at least those which are not subsidiaries of scheduled carriers) will make comparable reductions in their charter rates (or ask for more extensive charter authority) in order not to lose their volume of traffic. In fact, Atlantis, a German charter carrier holding authority from the U.S. Government, has already announced that it intends to make comparable reductions in its North Atlantic charter rates in order to match Lufthansa's proposals -- the number I recall was $135. As such a situation develops, all charter operators would soon match the lower rates offered by Atlantis and then it would be the turn of the scheduled operators and so on. Let me say again: competition is desirable. But we are concerned that it could depress scheduled and charter rates to the point where the viability of certain carriers, and indeed the quality of air service in general, may be at issue.

Let me also mention the question of cross-subsidy between groups of passengers: some high yield traffic moving on scheduled services covering the cost of low yield traffic also moving on scheduled services or charter services. For example, in the Montreal proposal, the basic advanced purchase fare is only 42.9% of the normal economy fare and, under the Lufthansa proposal, the 14-45 day excursion is 50% less than the normal economy fare. I offer for the record an analysis of selected economy fares and discount fares which shows these disparities. It is hard to believe that the cost savings of handling either the APEX passenger, or the 14-45 day excursion passenger, is of the magnitude of 50% of the costs of handling the normal economy passenger.

We have heard IATA carriers argue that their seat factors are low, and these types of low so-called promotional fares will bring in additional revenues and fill seats that would otherwise go empty. While the fares would no doubt have that effect, we suggest that a sounder policy would reduce excess scheduled capacity and at the same time relate fares more closely to costs.

In the light of the foregoing considerations, let me again address the proposed legislation, S. 2423.

We believe the Board should be given additional authority to regulate international air rates for the carriage of passengers and cargo between the United States and foreign points, whether such rates are charged for scheduled or charter air service, and whether they are charged by U.S. or foreign air carriers. We differ with S. 2423, however, in the amount of authority to be given to the Board. First, we believe that the Board's authority should be limited to the suspension and rejection of such international air rates, and that it should not include the power to prescribe or fix such rates. The powers contained in S. 2423 are an extension of the CAB's domestic rate authority which we consider to be too wide ranging for use on the international side, and not necessary. We have two principal reasons for this position. (1) We are aware of no demonstrated need for Board authority to fix international air rates; the powers we do favor seem to us adequate authority to deal with past, present and foreseeable situations. For example, the Board would be able to act in a timely and effective fashion in an open-rate situation by suspending or rejecting proposed fares that fail to meet the prescribed criteria, or by retaliating against the disapproval by foreign countries of fares proposed by U.S. airlines. Thus the Board should no longer feel constrained to reject an IATA rate agreement for fear that a "chaotic" and uncontrollable rate war is the only alternative. (2) Under the view we understand the Department of State has of the clauses in certain existing air bilateral agreements, giving the Board the power to fix international air rates (in addition to the power to suspend and reject) would be counterproductive in that it would have the effect of limiting the power to suspend or reject a foreign air carrier's rate where there is a disagreement with a foreign nation.

Second, we believe the grounds for the exercise of Board authority to suspend or reject international air rates should be narrower than those in S. 2423. The Board should be able to act, on economic grounds and on petition or its own motion, only where a rate is excessively high or low, or unjustly discriminatory and would have a substantial adverse effect on commerce. We have not yet developed the precise statutory language to express the standards to be used by the Board in exercising the limited power over international rates that we recommend. We are presently studying various statutory analogies, including section 18(b)(5) of the Shipping Act of 1916 which incorporates the "too high-too low" concept. We will shortly submit to you our recommended statutory language. Regardless of the language used, it should permit the Board to act where a rate is found to be non-compensatory.

Section 6 of S. 2423, amending section 1002(g)(2) of the Federal Aviation Act, would also allow the Board to act in retaliation to the Act of a foreign government. We can envisage the utility of such authority, but we defer to the Department of State as to the propriety of it.

With respect to the outside time limit for the suspension of international rates, we think there are two significant variables that should be taken into account. The first is the length of time needed to conduct a Board investigation of air rates, and the second is the length of time needed to engage in and complete consultations with foreign governments about challenged air rates. We would think that 180 days is clearly ample for either purpose, but because it amounts to a six month delay in the institution of a proposed rate with the resulting disruptions of marketing effort of an airline, we would hope that the Board and the State Department would in most cases complete their work in far less time.

S. 2423 provides for limited Executive notice. The Department favors giving the President the power to review a proposed Board suspension or rejection of a rate, so that the President could choose to approve, disapprove or stay the Board action, or do nothing and allow the Board action to take place. We believe that a period of 10 days is required and is appropriate for the President to exercise the powers we recommend. Executive review was recommended in the Statement of International Air Transportation Policy approved by the President, although the CAB at that time noted that it had for years favored only Executive notice. We consider Executive review to be a necessity in view of the President's responsibilities respecting national security and foreign relations.

Mr. Chairman, that concludes my prepared statement. Thank you very much.