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DEPARTMENT OF TRANSPORTATION

NEWS

OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20590

1-DOT-74

REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS-DESIGNATE, DELIVERED AT THE NATIONAL RETAIL MERCHANTS ASSOCIATION'S ANNUAL CONVENTION -- PANEL ON TRANSPORTATION IN TRANSITION -- NEW YORK, NEW YORK, JANUARY 8, 1974

It is a pleasure to be with you this afternoon. I welcome this opportunity to comment on developments in the transportation industry. This panel's title appropriately recognizes the fact that "Transportation (is) in Transition." My purpose here today will be to discuss some of this transition from the Federal government's point of view. I will deal principally with the current Federal regulatory climate and proposals of the Department of Transportation to effectuate constructive change.

Without question, retailing and transportation are inextricably intertwined. Transportation is a basic service to the American public, and the health of your industry rests in large measure upon a healthy, viable national transportation system. This is certainly true whether you are a small or large user of the nation's distribution network.

In the Department of Transportation, we seek always to deal with transportation problems with the users' interests in mind and in so doing we often strive for a healthy and efficient carrier element.

This is an important time in the history of transportation -- especially in the history of the railroad industry. Some change is already a fact. The direction of that change in the future is the critical question we face. Much of our concern recently was focused on proposals advanced for the resolution of the problems facing the bankrupt Northeastern railroads. That was an immediate problem, although it was shaped gradually over the years. The carriers' plight led to a serious threat that rail service over a 17-state area might be sharply curtailed. I'm pleased to observe that legislation to resolve the bankrupt carriers' problems proceeded through Congress with great speed. The bill was signed by the President last week, and we consider it a major step away from nationalization.

Now, as the job begins of implementing the legislative mandate to restore the Northeast lines to proud and productive service, we must turn our attention to resolving some of the problems that directly or indirectly have led to financial and service handicaps of the railroads generally. This job is long overdue. It needs prompt attention. We must reform the regulatory practices and procedures under which the carriers operate.

In many ways, although we have made advances in transportation technology, some related service functions seem to have been lost in the rush. Shippers, carriers, consumers, the financial community, and those in government must press for the removal of impediments -- procedural, administrative, legislative and regulatory -- that hinder the efficient, economical and safe flow of persons and goods in the domestic and international transportation system.

We believe that a major cause of the railroad industry's problems is an outmoded and excessively restrictive Federal regulatory policy. Existing regulatory policy has seriously hampered railroads' ability to adapt to changing economic and competitive conditions in the transportation industry. It has discouraged abandonment of uneconomic rail lines and hindered the industry in innovating new services, in responding to competitive conditions in transportation and in attracting traffic on which railroads have a competitive advantage.

Yet, modernization of railroad regulation has not occurred since 1940. Thus, there is a need not only to unshackle the Northeast roads from constricting regulations which are in part responsible for their present difficulties -- but also to provide a solution to problems which have become endemic to the whole railroad industry.

Let me elaborate. Net profits as a percent of equity for the industry are less than one percent. Many railroads cannot generate sufficient earnings to make needed improvements in track, roadbed and facilities. As a consequence, a substantial part of the total rail industry in the U.S. is in a state of deterioration. The railroad industry's share of total intercity freight ton-miles and the average revenue per ton-mile have been declining. The industry, furthermore, is burdened by many miles of uneconomic lines which are a financial drain and add substantially to operating costs. At the same time, parts of the railroad system are operating at or close to capacity, and these segments must be upgraded and expanded if the industry is to make its contribution to the national transportation system. I might add that funds from outside sources are not available to some of the nation's healthiest railroads for modernization purposes.

An efficient rail system would be a great national asset. Removal of outmoded regulatory restraints is an essential condition for restoring the economic health of the rail system and enabling it to provide the efficient low cost service of which it is capable. For the past year or so, we have been preparing a legislative proposal to amend the Interstate Commerce Act to achieve needed reform of regulatory restraints on our railroads. We hope to send that bill to the Congress very soon. It will make a number of proposals, including:

1. Abandonment procedures would be speeded up and standards should provide that in order to require operation, the cost of that operation would have to be covered by the revenues earned.

2. Railroads would be permitted to increase or decrease their rates and to improve the range of services offered without undue regulatory delay. Rates below variable cost would be eliminated and railroads will be given greater freedom to raise or lower rates without fear of suspension.

3. Governments would be required to pay the same rates as other shippers.

4. Antitrust immunity would be eliminated on agreements relating to single line rates, or on rates in which the carrier agreeing does not participate. Prompt action by carrier rate bureaus would be required.

5. When railroads abandon lines, motor or water carriers would be allowed to provide needed service.

6. Discriminatory state and local taxation of rail assets would be eliminated.

7. Delays would be reduced in the process of state approval of intrastate rates that correspond to changes in interstate rates.

Regulatory change is particularly important in the areas of rail abandonments and pricing, and I will focus my detailed comments today on these aspects of the regulatory reform legislation we are preparing.

Excess capacity is a major problem with the railroad industry. By reducing excess capacity and eliminating uneconomic low-density lines, the railroad industry could lower per unit operating cost and remove a heavy financial drain. However, the detrimental effects associated with the operation of uneconomic lines are not limited to the railroad industry. It appears clear that motor carriers are better suited to handling much of the shorthaul traffic which presently moves on low density rail branch lines, while railroads have a cost advantage in long haul markets. Thus, the abandonment of uneconomic low density rail lines would enable railroads to concentrate their efforts in providing those services in which they have a relative advantage while providing a further opportunity for trucking service to develop in markets where it would have the relative advantage.

The Department wants to speed up the regulatory processes in considering abandonment applications by providing an explicit and appropriate economic standard for determining when an abandonment is justified.

Because our abandonment provisions are likely to result in some additional traffic for truck carriers, it is important to consider the energy consumption and air pollution effects of the bill. Typically, abandonment candidates will be low density, short branch lines. Our analysis shows that there is greater energy efficiency in carrying freight by truck, as compared to rail, for distances less than 10 miles and shipment sizes less than 130-140 tons.

Because exhaust emissions for each mode vary directly with gallons of fuel consumed per mile, the rail/truck preference from an emissions perspective would follow generally that for fuel consumption. Thus, although the envisioned branch line abandonments will result in some increase in truck traffic, transportation of the freight now carried on most of the lines to be abandoned will become more energy efficient and cause less pollution.

Moreover, the bill is designed to encourage more competitive and efficient pricing of rail services which would assist rails in attracting traffic on which they are the low cost mode. Thus, we anticipate that the overall effect of this bill will be to improve freight transportation's energy efficiency and to reduce its exhaust emissions.

Of course, it must be recognized that under some circumstances an uneconomic rail line may be the most efficient mode of transportation available to shippers. Therefore, I can see considerable merit in providing some mechanism whereby a state or local government or other interested party could subsidize railroad operations to assure the continuation of uneconomic service for which a special need exists. We also recognize that liberalizing abandonments would result in some loss of rail service to various shippers. In order to assure that such shippers will have an effective and efficient alternative mode of transportation without any hiatus in service, it may be desirable to provide for liberalized entry by motor and water carriers seeking to provide substitute service.

Regulatory change is also urgently needed in railroad rate making. The current system of rate regulation severely limits an individual railroad's freedom to establish rates. As a consequence, it has created serious rigidity and distortions in the railroad rate structure. This rate structure rigidity has hindered the railroad industry in innovating new services and prevented it from responding effectively to the needs of changing transportation demand. In particular, it has prevented railroads from attracting traffic on which it has a comparative advantage. Greater flexibility in rate making is essential to improve the performance of the railroad industry and the entire transportation system. Serious inefficiency results where low cost carriers are impeded or prevented from reducing rates to reflect greater efficiency. The Department recognizes the need to introduce greater flexibility in the rate structure and our proposed legislation will contain various proposals designed to achieve this objective.

Another serious problem in the area of railroad pricing is the fact that nearly 10 percent of all rail revenues are derived from rates that do not cover the variable cost of the service. The railroad industry loses approximately $200 million annually handling traffic at rates below variable cost. The cross-subsidization results in a misallocation of resources both within the field of transportation and in the economy at large. The proposed bill addresses this problem directly by requiring all rates to cover variable cost.

Through our proposed legislation, we hope to create substantially more rate making flexibility to correct the present distortion in the rate structure and to encourage railroads to introduce new services and attract traffic on which they have a comparative advantage. The basic thrust of the proposals is to place greater reliance on comparative market forces in rate making. I am confident that this will result in a more economic division of traffic, a lower overall freight bill, improved service and lower cost to the ultimate consumer.

Several months ago, you may have read an article in Business Week magazine about railroad accounting -- so-called "betterment accounting." The present railroad accounting system -- which is governed by the Interstate Commerce Commission -- is outmoded and inadequate to resolve the complex problems of modern transportation firms. This is not to say that the ICC is not concerned with improving the cost accounting system of the carriers. As a matter of fact, the agency has instituted several proceedings dealing with the cost accounting issue. One proceeding, however, was begun in 1962 and reopened in 1971. Another has been pending since 1969. Neither proceeding has resulted in final decisions as of the present time.

Our Department's bill would establish a uniform cost and revenue accounting system in order to properly address the proposed abandonment, rate-making and revenue level provisions that I have alreay discussed. This is accomplished by requiring the regulatory agency, jointly with the Department of Transportation, to study and recommend uniform cost and revenue accounting methods for rail carriers.

Among our deliberations about the type of regulatory reform to propose to the Congress, we were well aware that the three regulated surface modes have collaborated on the preparation of the proposed Surface Transportation Act, which received the endorsement of a House Committee two years ago. There are reforms in that bill which are positive, and we intend to endorse them in our proposed legislation. But it is clear that "controversial" reforms were left out of the Surface Transportation Act--by common consent--so that the residue of reform left in the industry bill is quite modest. We think the railroad industry needs more than that now--particularly if financial assistance is to accompany the regulatory reforms as the industry has proposed.

As I indicated earlier, considerable parts of the rail plant in the United States are in a deteriorating state and the risk exists that the general deterioration of plant and service now prevalent in the East could expand to other portions of the country.

Thus, the Department is seriously considering a proposal to provide Federal loan guarantee authority to finance needed improvements in rolling stocks, rights-of-way, terminals and other operational facilities and systems. However, these loan guarantees would be provided only where assurance exists that the capital improvements will make a genuine improvement to the overall efficiency of the rail system. In other words, the aid would help encourage needed long-term restructuring of the existing rail system.

Another basic problem in the railroad industry is the almost chronic shortage of freight cars. There are many reasons for the shortage. A key factor has been a low rate of freight car utilization. If we could improve this by 20 percent, we could reduce annual needs for new cars by approximately 10,000 to 15,000 cars. Increased utilization could save the railroads as much as $300 million in new car purchases.

Therefore, an effective system of car fleet management is required in order to achieve greater utilization. We do not have a national management system at this time -- it is sorely needed, and we have technology now to design and implement such a system.

To expedite and assure development of a national system,the Department's bill would authorize the Secretary of Transportation to conduct research into the design of a national rolling stock scheduling and control system which would be capable of locating and expediting the movement of rolling stock on a national basis.

The Department's forthcoming regulatory proposals are focused primarily on the railroad industry because the railroad industry presents the most immediate and pressing problems. Because of the competitive relationships among the various modes, improving comparative conditions in the railroad industry should lead to improvements in the competitive climate for the transportation industry as a whole. Also, the Department has underway a major research program designed to identify the need for regulatory change in the trucking and water carrier industries. These studies address important issues, including the examination of the effect of regulation on the performance of the trucking industry, an examination of rate bureau activities, studies of the effect of certificate restraints on carrier operating efficiency and quality of service. We are also studying the extent of empty backhauling by agricultural exempt carriers, the causes of such empty backhauling, the effects of empty backhauling on costs, rates and service and appropriate remedies for the problem, including the possibility of increased trip leasing.

We are conducting our studies in cooperation with the ICC, carriers, and shippers. This process should contribute much to our understanding of the need for and the consequences of additional regulatory reform to achieve greater efficiency and better quality service. I hope to have your help and support as we seek to achieve these goals.

DEPARTMENT OF TRANSPORTATION

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WASHINGTON, D.C. 20590

6-DOT-74

REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY-DESIGNATE FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, AT A SEMINAR ON "ENERGY AND THE TRANSIT INDUSTRY," SPONSORED BY THE AMERICAN TRANSIT ASSOCIATION
WASHINGTON, D.C., JANUARY 24, 1974

It is a pleasure to be with you this afternoon to discuss the energy crisis and the urban transit industry. Clearly the energy crisis is a major problem confronting the nation. It may, however, also prove to be an opportunity to accomplish some important improvements in urban transportation. Whether or not we can take advantage of this opportunity depends upon leadership at many levels.

I can assure you that Secretary Brinegar recognizes this opportunity and intends to commit DOT to a substantial effort in this area. Nowhere is it more critical, however, than from leaders such as you who have access to, and influence on, the transit operations of the nation. Through your efforts, transit can become a significant force in energy conservation and therein a long-term benefit to our urban environment.

The factors and considerations which shape urban transportation are presently in a state of flux. While the most obvious of these is energy, there are others, such as air quality and traffic congestion, which may only temporarily be upstaged by the energy problem. Thus, there is more intensive and widespread interest in urban mass transportation. Since approximately 30 percent of the fuel consumed for transportation in the U.S. is used in urban transportation, the potential for fuel conservation--brought about by a significant shift from auto to mass transportation--is significant. The effect of this shift on air quality and traffic congestion problems has correspondingly beneficial implications.

In the absence of energy and environmental constraints, urban transportation systems have evolved with the automobile in a preeminent competitive position for urban transportation patronage. As a result of the energy crisis, however, we can reverse this trend. We can change direction and take advantage of the economies inherent in mass transportation.

It is advantageous to categorize possible transportation responses to energy problems by time horizons over which implementation can reasonably be expected. The most useful categories may be described as immediate, short-term and long-range.

To a great extent, the energy problem is in the "immediate" category, with a serious crunch expected before the Summer is upon us. Short-term responses fall beyond the immediate, but short of new fixed guideway systems--perhaps one to five years. Long-range responses may have no certain outer time boundary. In many ways, immediate responses are the most challenging; short-term responses encompass the most decisions, while long-range responses entail vision, major capital requirements and universality of impact.

Immediate Response

The "immediate"-time response to the energy crisis by the urban transportation industry and government at all levels is the most provocative and potentially stimulating. DOT is emphasizing carpooling and mass transit improvements as immediate responses.

As you know, we have worked extensively on the mechanics of carpool matching. And, the cars are available in what might be kindly termed "abundant" supply. We are determined - and hopeful - that auto-obsessed commuters will respond to the weaning process that carpooling represents.

Another immediate response by the Department was to energetically support allocation of 100 percent of the transit industry's current fuel requirements. This effort was successful -- as you undoubtedly know from your review of the allocation regulations published by the Federal Energy Office on January 15. And, I might add, we were pleased with the outcome of this effort.

We recognize that mass transportation responses may be more difficult in the immediate time frame. Substantial additions of new rolling stock are not possible. Also, some changes in service--while technically possible--are time consuming. DOT believes, however, that some immediate actions are possible and must be pursued.

Establishing bus and taxi pools; creating special non-stop commuter runs; designating exclusive bus lanes and bus streets; establishing fringe parking within existing facilities; and improved routing and scheduling are examples of transit improvements which, if aggressively pursued by both government and industry, can be achieved in the immediate future.

Secretary Brinegar recently communicated with our State Governors, explaining how the Department is prepared to support such immediate efforts. His letter notes that the Emergency Highway Energy Conservation Act authorizes the Secretary to approve carpooling projects using Federal-aid highway funds under a 90/10 formula.

The near-term objective of the DOT program is to have by March 15, 1974, locally prepared energy saving transportation plans in every metropolitan area of our nation, taking full advantage of all transportation improvements that are feasible this Spring. The Secretary asked that these plans be implemented by May 1, 1974. The Department will buttress these objectives by holding regional seminars on implementation of these techniques, to include advice on the full use of the various DOT funding programs.

To assure continuity of such transit improvements over the longer term, the Department is developing a priority approval process for Federal-aid projects related to this program. Furthermore, it is the Secretary's intention that the Department emphasize a substained program of technical assistance to facilitate implementation of these projects. Certainly, this initiative should broaden and solidify the plausibility of locally sponsored, aggressive public transportation improvements.

As a complement to these immediate improvements, the industry should take advantage of the opportunity to capture new patrons who will be exposed to mass transportation for the first time because of fuel shortages. If new riders find transit systems convenient, accessible, understandable and comfortable, they are much more likely to continue while additional longer-term improvements can be made. If their worst fears are realized--because of poor service and discomfort--potential riders will be a difficult target for even the most effective mass transportation marketing program.

Mass transportation can make significant inroads into the commuting market if it can provide the potential patron with a quid pro quo for the independence he has foregone through individual car driving or participating in a carpool. To establish the advantages of mass transportation in this area, the service potential and information dissemination capabilities of transit systems will require new emphasis. I believe this can best be accomplished by the aggressive leadership of transit management.

Short-Term Response

The short-term category of responses to the energy shortage is the most familiar to most of us. It encompasses traditional transportation planning decisions. And, while short-term considerations do not include rail system construction, the category includes the potential to restructure mass transportation systems in a major way.

If momentum toward a shift to mass transportation should build during the immediate energy crisis, it must be maintained, even increased, into short-term planning and beyond. The similarity of short-term responses to immediate responses to the energy crisis are many; the major difference is that tools for change multiply with the time horizon. Critical factors remain critical. Service must be responsive to demand. And the potential means to accomplish this reaction expand to include larger capacity and more thorough reevaluation of system design. Since these adjustments do little good if they are not known, image must keep pace with service by intensifying marketing and information dissemination efforts.

The short-term time frame will encompass a major effort at the Department to enhance urban transportation systems. We anticipate that within the next one-to-five years, the availability and price of energy will continue to be a limiting factor on the use of automobiles, and air quality programs will have their effect as well. Thus, we are tailoring our programs to respond to changing--and growing--demands upon urban mass transportation systems.

Another DOT response -- soon to be officially proposed -- is an expanded program that will bring together allocation and grant dollars into a larger fund to be allocated every year. This will permit cities to make longer-term plans based on regular receipts of these funds.

Let me tell you more about the proposal because it will involve all of you directly. In order to encourage prudent local "trade-off" decisions in the use of funds, we would permit a portion of them -- within limits -- to be used for either transit capital or operating costs.

As you know, we have long opposed Federal programs involving direct operating subsidies because they lessen incentives for careful local management. We do favor permitting local choices as between capital and operations. And, for those cities facing large transit construction programs, our proposal will retain a sizeable discretionary grant fund.

This will be a significant program. It will offer more flexibility in the use of the Federal dollars -- it will provide cities with unusual problems an opportunity to apply for special grants -- and, it will offer increased funding. We will want to work closely with you -- as we have in the past -- to make our new program a success.

Long-Range Response

In considering the long-term implications of transportation and energy, limitations imposed on transportation choices can impinge upon a much broader range of decisions--both individual and collective. Large groups of people may change residence with transportation influencing their location decisions. And, governments and planning agencies at all levels will make transportation and land use decisions that react upon one another.

Another long-range consideration involves the role of telecommunications as a substitute for transportation. To what extent will the increased use of such technology change the shape of our cities and affect the need for urban mass transportation? This is only one of many long-range questions that can now be answered superficially at best because of the vast uncertainties involved.

Appropriate action on long-range questions is intimately related to immediate energy crisis responses--that is, aggressive leadership dedicated to providing service responsive to current demand and sensitive to the impact on patronage of the public image of that service.

I believe the urban mass transit industry is confronted with an unmatched opportunity. The dimensions of our energy crisis cry out for the services which the industry has the potential to supply. The urban transportation industry should seize this opportunity to reverse a long-term negative trend and build a momentum which will lead to greater system efficiency and greater patronage. This can be accomplished only by assuming a positive posture toward service innovations and industry image.

In closing, let me assure you that the Department of Transportation will strive to meet its share of the responsibility for accomplishing the goal I have described. Working together, we can ensure the development of more efficient urban transportation in response to the problems of energy, air quality and congestion . . . and such unforeseen challenges as will undoubtedly rise in the future.

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DEPARTMENT OF TRANSPORTATION

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OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20590

8-DOT-74

REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY DESIGNATE FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, AT A SEMINAR ON "ENERGY AND THE TRANSIT INDUSTRY," SPONSORED BY THE AMERICAN TRANSIT ASSOCIATION SAN FRANCISCO, CALIFORNIA-JANUARY 31, 1974

It is a pleasure to be with you this afternoon to discuss the energy crisis and the transit industry. Clearly, the supply and price of energy is a major problem confronting the Nation. It may, however, also prove to be an opportunity to accomplish some important improvements in urban transportation. As I told your East Coast counterparts at a similar session in Washington a week ago, whether or not we take advantage of this opportunity depends upon leadership at many levels.

I can assure you that President Nixon and Secretary Brinegar recognize this opportunity. As you know from the President's address last evening, they intend to commit DOT to a substantial effort in this area. This opportunity is also critical to leaders such as you who have access to, and influence on, the transit operations of the Nation. Through your efforts, transit can become a more significant force in energy conservation and thereby a long-term benefit to our urban environment.

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The factors and considerations which shape urban transportation are presently in a state of flux. While the most obvious of these is energy, there are others, such as air quality and traffic congestion, which may only temporarily be upstaged by the energy problem. Thus, there is more intensive and widespread interest in urban mass transportation. Since approximately 30 percent of the fuel consumed for transportation in the U.S. is used in urban transportation, the potential for fuel conservation--brought about by a significant shift from auto to mass transportation--is significant. The effect of this shift on air quality and traffic congestion problems has correspondingly beneficial implications.

In the absence of energy and environmental constraints, urban transportation systems have evolved with the automobile in a pre-eminent competitive position for urban transportation patronage. The energy crisis creates a good opportunity to reverse this trend. We should change direction and take advantage of the economies inherent in mass transportation.

As I think about possible transportation responses to energy problems, I classify them by time horizons over which implementation can reasonably be expected: immediate, short-term and long-range.

Immediate Response

To a great extent, the energy problem is in the "immediate" category, with a serious crunch possible before the Summer is upon us. The "immediate"-time response to the energy crisis by the urban transportation industry and government at all levels is the most provocative and potentially stimulating. Secretary Brinegar is emphasizing carpooling and mass transit improvements as immediate responses.

As you know, we have worked extensively on the mechanics of carpool matching. And, the cars are available in what might be kindly termed "abundant" supply. We are determined - and hopeful - that auto-obsessed commuters will respond to the weaning process that carpooling represents.

Another immediate response by the Department was to energetically support allocation of 100 percent of the transit industry's current fuel requirements. This effort was successful -- as you undoubtedly know from your review of the allocation regulations published by the Federal Energy Office on January 15. And, I might add, we are pleased with the outcome of this effort.

We recognize that many mass transportation responses may be more difficult in the immediate time frame. Substantial additions of new rolling stock are not possible. Also, some changes in service-- while technically possible-- are time consuming. We believe, however, that some immediate actions are possible and must be pursued.

Establishing bus and taxi pools; creating special non-stop commuter runs; designating exclusive bus lanes and bus streets; establishing fringe parking within existing facilities; and improved routing and scheduling are examples of transit improvements which, if aggressively pursued by both government and industry, can be achieved in the immediate future.

Secretary Brinegar recently communicated with our State Governors, explaining how the Department is prepared to support such immediate efforts. His letter notes that the Emergency Highway Energy Conservation Act authorizes the Secretary to support carpooling projects using Federal-aid highway funds under a 90/10 formula.

The near-term objective of the DOT program is to have by March 15, 1974, locally prepared energy saving transportation plans in every metropolitan area of our Nation, taking full advantage of all transportation improvements that are feasible this Spring. The Secretary asked that these plans be implemented by May 1, 1974. The Department will buttress these objectives by holding regional seminars on implementation of these techniques, to include advice on the full use of the various DOT funding programs.

Short-Term Response

The short-term category of responses to the energy shortage is the most familiar to most of us. It encompasses traditional transportation planning decisions. And, while short-term considerations do not include rail system construction, the category includes the potential to restructure mass transportation systems in a major way.

If momentum toward a shift to mass transportation should build during the immediate energy crisis, it must be maintained, even increased, into short-term planning and beyond. The similarity of short-term responses to immediate responses to the energy crisis are many; the major difference is that tools for change multiply with the expansion of the time horizon. Critical factors remain critical. Service must be responsive to demand. And the potential means to accomplish this reaction expand to include larger capacity and more thorough reevaluation of system design. Since these adjustments do little good if they are not known, image must keep pace with service by intensifying marketing and information dissemination efforts.

The short-term time frame will encompass a major Departmental effort to enhance urban transportation systems. We anticipate that within the next one-to-five years, the availability and price of energy will continue to be a limiting factor on the use of automobiles, and air quality programs will have their effect as well. Thus, we are tailoring our programs to respond to changing--and growing--demands upon urban mass transportation systems.

Another DOT response--announced to the Nation by President Nixon last night--in an expanded program that will bring together allocation and grant dollars into a larger fund to be allocated every year. This will permit cities to make longer-term plans based on regular receipts of these funds.

When enacted, the President's multi-billion dollar program will provide funds to urban areas for use in a wide variety of transportation projects, including urban highway construction and capital and operating expenses of mass transit systems. We expect that more funds will be authorized than is now the case in the two separate programs that provide Federal transportation funds to urban areas. (These are the Urban Highway programs from the Highway Trust Fund and the Urban Mass Transportation Administration's capital grant program from general funds.) The new program will offer also a rural transportation program that represents an important opportunity for rural areas, even though the new dollars will be modest in amount.

The new program will have a number of important features:

1. it will assist urban areas in solving transportation problems that they are unable to handle alone. These problems are being intensified by the energy crisis and the need to meet environmental standards;

TAD-492

DEPARTMENT OF TRANSPORTATION

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18-DOT-74

WASHINGTON, D.C. 20590

REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY (DESIGNATE) FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF TRANSPORTATION BEFORE THE PITTSBURGH CHAPTER OF THE NATIONAL DEFENSE TRANSPORTATION ASSOCIATION PITTSBURGH, PENNSYLVANIA MARCH 18, 1974

"The Transportation Improvement Act of 1974"

It's always a pleasure to come to Pittsburgh, whether fair weather or not, because the city represents constructive change such as here at the tip of the Golden Triangle. Constructive change is what I want to talk to you about today -- specifically, how it can apply to the Nation's transportation industry.

Pittsburgh, of course, is an ideal community in which to discuss transportation changes, particularly as they relate to railroads. The city has a built-in stake in a dynamic railroad network; so do we at the U.S. Department of Transportation. We have a common interest in maintaining railroad viability, as well as in developing ideas to ensure economic health of the industry in the future.

I am here today to describe an approach we have developed at the Department to solve some of the industry's current difficulties, and to ask your support as our proposal chugs its way through the Congressional process. It's called the Transportation Improvement Act; I am optimistic enough to believe that it can become law in 1974.

There can be no mistake about the fact that the railroad industry in the United States is deeply troubled. Net profits as a percent of equity for the industry are less than one percent. Many railroads cannot generate sufficient earnings to make needed improvements in track, roadbed and facilities, while funds from outside sources are not available to many railroads for these purposes. As a consequence, a substantial part of the total rail industry in the U.S. is in a state of deterioration. The railroad industry's share of total intercity freight ton miles and the average revenue per ton mile have been declining. The industry, furthermore, is burdened by many miles of uneconomic lines which are a financial drain and add substantially to operating costs.

A major cause of the railroad industry's problems is an outmoded and excessively restrictive Federal regulatory policy. This policy has seriously hampered railroads' ability to adapt to changing economic and competitive conditions in the transportation industry. It has discouraged abandonment of uneconomic rail lines and hindered the industry in innovating new services, in responding to competitive conditions in transportation and in attracting traffic on which railroads have a competitive advantage.

It is strange, indeed, that our basic regulatory policy towards the railroad industry has changed very little since 1887 when the Interstate Commerce Act was adopted and the Interstate Commerce Commission formed. In the intervening period, the competitive position of the railroad industry has changed dramatically with the rise of alternative modes of transportation -- pipelines, trucks, barges and air. Whatever monopoly position railroads may have enjoyed in 1887, today railroads face intense competition from other modes of transportation. Basic competitive conditions in transportation have changed dramatically, but Federal regulatory policy towards the railroad industry has not. Therefore, there is a need not only to unshackle the northeast railroads from constricting regulations which are in part responsible for their present difficulties -- but also to provide a solution to problems which have become endemic to the whole railroad industry.

President Nixon and Secretary Brinegar have been highly sensitive to these problems. They are taking major steps to prevent a recurrence of the northeast rail situation elsewhere in the Nation. Just last month, for example, the President sent the Transportation Improvement Act to Congress.

The bill -- H.R. 12891 -- is designed to bring needed financial and regulatory relief to the private-sector railroad industry. The TIA will remove regulatory constraints that adversely affect the health and viability of rail operations, authorize up to $2 billion in Federal loan guarantees for rail capital investments and provide $35 million for a national rolling stock scheduling and control system to get better utilization of rail equipment.

"A healthy railroad industry is a great national asset," the President said, in sending the legislation to Congress. "Unfortunately," he added, "the industry is suffering today from a number of problems which prevent it from operating at peak efficiency. The Transportation Improvement Act provides the resources and the mechanisms to remedy those problems."

Well, what are those problems? I'm sure many of you in this audience fully understand what they are. But let me expand on this point, because I think it is essential that we communicate our concerns and build agreement on the need for real solutions to some of the fundamental problems of the railroad industry.

Our railroads are part of an inter-urban freight system that serves our large and diverse Nation with extraordinary skill. Rail and barge operations provide reliable, low-cost service for long-haul commodities and bulk freight. Our trucking industry provides fast and dependable door-to-door delivery of high-value freight and cargo that the other modes can't easily handle.

But the problem is the conflict between the need for the Nation to have a system that meets its requirement for transport services at the lowest possible overall resource cost and the regulatory system that has grown like topsy since 1890.

Almost everyone agrees that changes are needed. There's a bit less unanimity regarding what changes. So, I'd like to give you some insights into the thinking behind the Administration's proposal, and I'll discuss another proposal known as the Surface Transportation Act, which has been pending in Congress for at least two years. To do this, I think we have to put our work into some perspective to illustrate that significant research and study are behind our Transportation Improvement Act.

Chapter 4 of the 1970 Economic Report to the President highlighted the problems of strict Federal regulation. Stemming from that discussion, a Transportation Subcommittee of the Cabinet Committee on Economic Policy was formed. Members were Cabinet-level officials from responsible agencies whose job was to review the regulatory patterns of governmental institutions. That was the beginning.

The basic impetus behind our reform proposal was stated in the 1971 Economic Report to the President as part of the Administration's program to ensure the existence of safe, efficient and economic surface transportation. The premise of this effort was that increased reliance on competitive forces, free of unneeded regulatory restraints, is an essential prerequisite to the revitalization of a privately-owned transportation system. We hold the same view today.

In the process of pursuing these goals, the regulated surface carriers -- motor, rail and inland water -- hammered out the Surface Transportation Act. It was, as one might suspect, free of any controversy among the carriers. This was an important step for the carriers to take, but their effort fell short of achieving a sufficient amount of needed regulatory changes.

Hearings were held in Congress and some progress was made. It was an important process at that time -- 1972 and early 1973 -- because it helped all of us focus our sights on the areas of agreement between the Department and the carriers, as well as on those few areas of disagreement.

This is where we are right now. We have two bills -- the Administration's new Transportation Improvement Act and the Surface Transportation Act, which reflects the hard work done in the 92d Congress by the Transportation Subcommittee of the House Interstate and Foreign Commerce Committee. Hopefully, the legislative process will begin anew, building on that basic groundwork.

Now -- with the railroad situation just as pressing as before, and with general agreement on how to solve some of the railroad industry's principal problems -- I think we can successfully move ahead in this, the second session of the 93d Congress. The problem is that the Surface Transportation Act does not go far enough in achieving the kind of reforms that will be necessary to do the job that must be done.

Let me take the next few minutes to tell you more about the Transportation Improvement Act by putting the discussion in this context. In 1973, the rail industry had total operating revenues of more than $13 billion. Yet, do you know that despite these billions, the rail system was able to earn an average return on capital of only three percent or so? This is why the TIA would authorize up to $2 billion in Federal loan guarantees to assure that financial resources are available to those railroads unable to finance essential improvements and additions to plant and equipment -- most particularly those investments that will improve operating efficiency and reliability.

Our proposal will also assist the railroads by amending the Interstate Commerce Act to permit simplified rail abandonments, greater flexibility in ratemaking, more timely rate changes and greater opportunity for rate innovations.

The regulatory reforms we seek will increase the railroad industry's ability to compete and to adjust to changing economic conditions. Rails have been too often discouraged by regulatory roadblocks from implementing new services or from pursuing technical advances. We want to end restraints to innovation. We want to return to the rail managers the needed freedoms to manage.

We believe that rates should cover costs and, in total, provide for a realistic return. Another cornerstone of the TIA is greater pricing flexibility. This is a reform not found in the STA. Flexibility is needed so that both carriers and shippers have a greater ability to adjust to changing economic conditions. If our proposals are adopted, we would expect some rail rates to go up and some rates to come down. But such increased rail efficiency and competitiveness would, in the long run, benefit shippers as well as carriers.

The TIA -- I want to stress -- will not constitute a license for wholesale abandonment of rail lines. Abandonments would be permitted only on the basis of explicit standards and a process that lasts at least two years. Even then, service could be retained if the local community makes up the difference between the lines' revenues and operating costs. And, the bill makes it easier for motor or water carriers to serve markets no longer served by railroads.

Another feature of the TIA would help the railroads by providing additional Federally-financed research and development of advanced technologies and operating techniques. We want to provide $35 million to design and put into operation a nationwide program for the efficient scheduling of freight cars. According to our studies, the typical freight car is idle about 85 percent of the time. But, with today's sohphisticated communications and computer capabilities, surely we can do better.

The Department's TIA is focused primarily on the railroad industry because the railroad industry presents the most immediate and pressing problems. Because of the competitive relationships among the various modes, improving conditions in the rail industry should lead to improvements in the competitive climate for the transportation industry as a whole.

We are also concerned about the other modes as well. We have underway now a major research program designed to identify the need for regulatory change in the trucking and water carrier industries. These studies address important issues. They include an examination of the effect of regulation on the performance of the trucking industry, an examination of rate bureau activities, studies of the effect of certificate restraints on carrier operating efficiency and quality of service.

We are studying, in addition, the extent of empty backhauling by agricultural exempt carriers -- the causes of such empty backhauling, the effects of empty backhauling on costs, rates and service, and appropriate remedies for the problem, including the possibility of trip leasing.

Our work has been moving forward in cooperation with the ICC, carriers and shippers. We believe this process should contribute to our understanding of the need for, and the consequences of additional, regulatory reform which will lead to greater efficiency and better quality service. You will be hearing more about these proposals in the months ahead.

Your efforts and mine will not be worth a gold brick in the Allegheny River, however, if we do not get Congressional hearings on our immediate reform proposals. That is why I ask you to do what you can to help get the legislative ball rolling so that a bill can emerge in 1974. Contact your elected officials and stress the urgency to continue the process of improving rail transportation.

I am confident that Congress can produce a meaningful bill this year. But, as I have said, this will be greatly dependent on the support you can give us. We have a job to do now, and that is to win approval of the Transportation Improvement Act. With your help, we can do it.

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TAD-442

DEPARTMENT OF TRANSPORTATION

NEWS

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20590

25-DOT-74

REMARKS PREPARED FOR DELIVERY BY ROBERT HENRI BINDER, ASSISTANT SECRETARY OF TRANSPORTATION-DESIGNATE FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, AT THE 17TH ANNUAL DINNER OF THE WOMEN'S PASSENGER TRAFFIC ASSOCIATION, ESSEX HOUSE HOTEL, NEW YORK, NEW YORK, THURSDAY, MAY 2, 1974

It's a rare treat, and a sincere pleasure, to address this distinguished assembly of business women and men. In preparing for my address this evening, I noted that the Women's Passenger Traffic Association and the Men's Passenger Traffic Association will soon be consolidating. Undoubtedly, this merger will have the effect of stimulating new ideas. I extend my best wishes for your future success as a merged organization.

Most of you are responsible for the expenditure of thousands of transportation dollars. Quite naturally, you want the best deal you can develop for transportation that is safe and efficient.

The U.S. Department of Transportation has the same objectives. I'd like to spend the next few moments telling you more about our role, particularly as it impinges on the airline industry, since this is where the bulk of your travel dollars are directed.

One of our prime concerns at the Department is the achievement of a safe, efficient and economic transportation system that meets the needs of all of our citizens -- business travelers, tourists, and others. In this context, we are systems oriented; we are concerned with the smooth operation of all elements of the transportation network.

Obviously, we could have the best long-distance passenger transportation system in the world, but it doesn't mean much if we can't get passengers to air or rail or bus terminals quickly, safely and at low-cost. This means we look not only at the health of the long-distance passenger segment but also at the surface systems aimed at home-to-terminal or office-terminal transit and return.

An added dimension was thrust into our thinking as a result of the energy crisis. January and February saw the dawn breaking over frequent and long gas lines. The market for big cars and recreational vehicles took a nose dive. Thousands of auto workers were laid off. Airlines stopped sending up half-empty planes and they cut back on their flight schedules. Rail and bus passenger traffic, on the other hand, climbed to new levels, taxing the equipment capacity of the carriers.

The potential crunch won't be over until we can develop the capacity in the United States to be self-sufficient in the production of energy, free of dependency on foreign sources. This is the thrust of President Nixon's "Project Independence," a national commitment designed to free ourselves from the energy blackmail that we experienced so recently.

I was impressed with the way the public and the carriers reacted to the fuel shortage. Now, the embargo has been lifted, but are we out of the woods? My answer is no. There is the risk the embargo could return. And there is the risk that we may return to our fuel-wasting days.

Unfortunately, I perceive signs that some of us are lapsing into our old and bad fuel habits. Despite a national speed limit of 55 miles per hour, some drivers are zooming by at 60 or 70 miles per hour -- as if fuel was still in unlimited supply, and breaking the law at the same time. And carpools have not yet become the byword of the American commuter.

If we are to avoid another "crisis," then we must continue our own individual and corporate conservation efforts. As we strive to achieve the benefits from the President's "Project Independence" over the longer range, we must also look to resolving those energy-related problems that are solvable now in the short range. We still have tough medicine to swallow and belts to be tightened.

We are in intense competition for fuel. In the U.S., the total energy consumption has doubled every 20-to-25 years for the past 120 years. The price of gasoline is rising as well as the price of jet fuel. Most of that expense is felt in the transportation system. Of the Nation's total current liquid fuel usage -- some 18 million barrels a day -- just about half now goes to the various forms of transportation. Automobiles consume 30 percent of all liquid petroleum. So, you can see that any serious and meaningful attempt to conserve energy must give transportation conservation a very high priority.

The appetite for fuel in some of the transportation modes is ravenous. Recent growth rates of energy usage in the high-speed movement of people and goods now exceed the national average of all energy usage. Unless we slow that trend down, transportation alone could be requiring 15-to-16 million barrels of liquid fuel per day by 1985.

Changes are indeed necessary. At the Department of Transportation, we have urged a nationwide effort to put the individual auto commuter into a carpool. We are backing that initiative with funding contained in legislation signed by the President in January that provides for designated highway carpool lanes and exclusive bus lanes, related traffic control devices and preferential parking in publicly-owned facilities for carpoolers. We developed a Computerized Carpool Matching Program that's being applied to many large urban centers.

We are also attempting to shift motorists into public transportation systems, which we are helping to bolster in a number of ways. The Federal-Aid Highway Act of 1973 provided highway funds for transit programs. And, legislation proposed by the Administration -- known as the Unified Transportation Assistance Program, UTAP for short -- will add an effective dimension to solving urban transit problems. Overall, we estimate that carpooling and public transit offer a near-term potential for fuel savings in the order of 10 percent of total transportation energy usage.

The intercity movement of passengers and commodities is also undergoing a change. By mid-December of last year, with new funding to AMTRAK approved, Congress voted to restructure seven bankrupt Northeast and Midwest railroads. Early in this session of Congress, the Administration introduced the Transportation Improvement Act, aimed at a dramatic revitalization of all the nation's rail carriers. The proposal incorporates a financial stimulus to rail investments, an easing of Federal regulations that restrict operations and innovations by the carriers' managements, and provisions to avert any future wreckage like that of the Penn Central. And, provisions in the proposed bill will improve rail roadbed and track that, in turn, will translate into better freight and passenger operations.

Part of the responsibility of the Department of Transportation is to understand the financial condition of carriers serving the public; healthy carriers provide the best service. From this standpoint, the earnings of the airlines serving the public across the Atlantic over the past several years -- both scheduled and charter services -- are disturbing, disturbing because they have been so low. This raises serious questions as to the continuing viability of the services; we believe that economically viable service must be a fundamental objective.

Market forces, when allowed to work, encourage efficiency of transportation operations. Therefore, I believe it is preferable -- when it's feasible -- for problems to be solved through carrier initiatives rather than as a result of some governmental analysis. However, when the market appears to have moved an industry close to a cliff over which neither industry nor governments wish it to tumble, it may be necessary for governments to exercise more affirmative action than they otherwise prefer to exercise. I have the increasing belief that we now may be at this type of watershed in the relationships between the air carriers and their governments regarding North Atlantic scheduled and charter air service.

Except for the certification of National Airlines in 1969, the U.S. flag route structure has remained essentially unchanged since 1950, although there are now 19 foreign route carriers in the International Air Transport Association, in addition to a few non-IATA route carriers. There were only six foreign carriers serving the North Atlantic in 1950, 24 years ago: Air France, BOAC, KLM, Sabena, SAS and Swissair.

The U.S. flag share of North Atlantic scheduled IATA traffic has decreased from 62.8 percent in 1950 to 40.8 percent in 1973. To what extent this drop has been caused by the increased number of foreign carriers, or because U.S. flag carriers compete with each other more intensely than with their competitors, is one of the issues raised in the Transatlantic Route case now before the Civil Aeronautics Board.

Given this proliferation of services and competitors -- including charter competitors, too -- the U.S. Government is in the midst now of a thorough review and reappraisal of the proper structure of airline routes and competition across the North Atlantic. It's our preliminary view that a route realignment in the North Atlantic markets is an essential factor to consider in the preservation of a viable North Atlantic air transportation network. We are particularly concerned about those markets in which U.S. carriers compete with strong foreign carriers. A new competitive policy may be required to shift away from point-to-point competition and toward area competition.

In the meantime, we have supported the proposal of two American transatlantic carriers -- Pan American World Airways and Trans World Airlines -- to engage in discussions among themselves about possible route swaps, mutual service suspensions and capacity reductions. We believe it is possible for changes in pattern of operations to be made this year to enable the carriers to substantially reduce operating costs.

One of the fundamental unresolved issues concerning the structure of rates across the North Atlantic is the absence of a floor under charter rates. I am sensitive to the relationship between such a floor and the lowest scheduled fares that represent the airlines' effort to use scheduled flights to compete for a share of the tourist market. I am very disappointed that the industry has not arrived at some agreement in this area, despite long-standing carrier authority for discussions about a charter rate floor and efforts by the carriers to reach an agreement that failed as recently as late last year.

The consequences of not fixing a compensatory charter floor are most serious; for some time, I have urged the CAB to move to create a de facto charter rate floor by rejecting rates which fall below it. I am aware that escalating fuel prices have increased the difficulty of identifying a compensatory charter rate floor, but I believe that this difficulty can be overcome.

I also believe it is time to make further and substantial progress toward the improvement of the scheduled air fare structure across the North Atlantic. For some time, the Department has been calling for improvement in the fare structure used by IATA. We continue to believe that the present IATA structure is substantially faulty in two major respects.

The first is that the structure taken as a whole is not compensatory; it does not produce adequate revenues for the scheduled carriers. We have the objective of making air transportation operations compensatory. Other governments may be willing to subsidize their international airline operations, but I sense no such willingness on the part of the U.S. Government. The fact that IATA's total fare package is not compensatory now, and has not been for the past several years, is witness to the industry's inability to set its own house in order.

The second major fault with the IATA rate structure has to do with the components which make it up. The IATA carriers are planning to meet next month to discuss a new rate package to take effect late this year for application in 1975. It's our view at the Department that any new IATA agreement should reflect certain basic principles:

1. A simplified fare structure geared to the costs of providing service;

2. Discount fares limited to compensatory levels and to filling excess seats in off-peak periods;

3. The reduction of economy fares, since economy class passengers have been cross-subsidizing discount passengers;

4. The continued disapproval of fares favoring a special segment of the public, since they are unjustly discriminatory;

5. The modification of rules now allowing trip circuity and free stopovers to include specific charges for costly stopovers;

6. Fares between the U.S. and European points should bear a reasonable relationship to distances involved, with fares per mile declining with distance to reflect a taper principle, and

7. A program allowing IATA carriers to offer an experimental low fare to passengers willing to book space several months in advance, provided the fares are compensatory and the program does not frustrate normal scheduled service.

There's another aspect to the international air carrier situation that I would like to discuss with you briefly; it concerns acts of discrimination that occur abroad to the disadvantage of U.S. air carriers. Over the past several months, there has been extensive activity within the U.S. Government to identify the extent of foreign discrimination. It's the President's policy to vigorously oppose attempts to restrict U.S. air carrier operations abroad.

Thus, we favor a strengthening of the CAB's regulatory authority to react to discriminations against our carriers. We are hopeful it will not be necessary for the Board to exercise such authority, but we think it's time the U.S. Government vested itself to act in the event it should be required.

Recognizing the need for long-term improvement in the structure of rates and routes and the matter of foreign discriminations, I do not want to leave you with the impression that I am insensitive to the short-term crisis which threatens the viability of our international carriers. During the past several weeks, we have seen unexpected activity on the Hill, where proposals have been made for legislation to authorize the payment of fuel differential subsidies to all carriers who pay more for their fuel than is judged to be a reasonable sum. We have also seen the filing at the Board of applications for mail pay subsidy to cover not only differentials in fuel prices but also a reasonable return on investment.

We believe that direct subsidy should be viewed as a last resort, something to be considered only if it is clear that no alternatives exist to resolve the carriers' plight -- or if it becomes clear that apparent alternatives prove wanting in practice.

In the short term, I believe that much can be done by the carriers to adjust their routes. I also believe that much can be done through a cooperative program between the carriers and our government to facilitate an improvement in their revenue through increased rates that could be implemented this year.

As one example, we are concerned that at North Atlantic gateways the U.S. flag carriers get such a small percentage of the domestic feed from the domestic U.S. airlines. Certainly, there must be some way that a larger percentage of the traffic generated in the interior can be fed to our overseas carriers. This is an area of opportunity for your traffic groups to consider and, hopefully, encourage.

The attitude I want to express is the serious concern felt by the U.S. Government about our international carriers' financial plight. We are determined to take all appropriate action to support the interests of these carriers.

I want to thank you for the opportunity to be with you tonight. I wish you well in your work as a unified organization in the months ahead.

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DEPARTMENT OF TRANSPORTATION

NEWS

OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20590

26-DOT-74

REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY OF TRANSPORTATION-DESIGNATE FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, AT THE 17TH ANNUAL TRANSPORTATION SEMINAR AT ST. ANSELM'S COLLEGE, MANCHESTER, N. H., WEDNESDAY, MAY 15, 1974

It is with a great deal of pleasure that I join you today, and let me express three reasons that underlie that pleasure:

First, the wide recognition that St. Anselm's enjoys for the contribution it has made over the years in fostering important dialogues on national transportation problems;

Second, this is National Transportation Week -- a time when we acknowledge the contributions to America's progress by the men and women who use and set in motion the Nation's transportation systems, and

Third, the subject of your seminar is most timely and provocative: "The Impact of Productivity on Pricing."

I consider it an honor to be the lead-off speaker of your seminar. I'm also glad for the chance to discuss with you how we can improve productivity in transportation.

Today, I want to focus on the conceptual aspects of productivity in ways that relate to two highly important national issues: The viability of the Northeast and Midwest railroad network that has been crippled, in large measure, by an unnecessary level of Federal regulatory controls, and steps we have advanced at the U.S. Department of Transportation to ease those controls nationwide so that we will not again face the uncertainties and difficulties brought about by imminent collapse of our rail transportation system.

I do not paint a gloomy picture of the condition of transportation today in the United States. We possess the finest transportation system in the world.

Yet, the transportation system in our country is not without its share of problems, some of them severe. I believe we are addressing these problems at the Department of Transportation in a responsible fashion. We want to help ensure that we achieve a safe, efficient and economic transportation system that meets the needs of all of our citizens.

Let me quote a passage contained in the final report of the Task Force on Railroad Productivity to the National Commission on Productivity and the President's Council of Economic Advisers:*

> "The country faces a choice with respect to the railroad industry. If reforms and innovations . . . are avoided, the railroad industry will continue to falter. This will result in an ever greater burden on the American consumer and taxpayer. The Federal Government will continue to be confronted with periodic crises in the railroad industry. On the other hand, bold reforms can restore the industry to a vigorous and profitable state . . . . In addition, a sound program of reform need not rely fundamentally on public money. The keys are improved factor productivity and speedier adaptation to changes in the freight market. The emphasis should be on structural and operational reforms that further these goals, with public funds being used only as they encourage and facilitate the necessary reforms."

A major step in the reform process was passage by Congress of the Regional Rail Reorganization Act of 1973, signed by President Nixon last January. It was a landmark bill in the transportation industry premised on several realizations:

1. That a major portion of the Nation's rail service was provided by insolvent carriers;

2. That the trustees of those carriers were unable to present a viable plan for reorganization, and

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*Report entitled, "Improving Railroad Productivity," introduction, page XI.

3. That the public interest necessitated the preservation and maintenance of a viable rail system.

The law has essentially two main purposes. First, a rail system is to be identified that will be financially self-sustaining and adequate to meet the needs and service requirements of the region. Second, the bankrupt railroads are to be reorganized into a new Consolidated Rail Corporation (Conrail).

To assure that these goals were met, Congress created an independent corporation, the United States Railway Association, and charged it with formulating a final rail system plan. And, Congress required the Department of Transportation to prepare a comprehensive report containing the conclusions and recommendations of the Secretary of Transportation with respect to the geographic zones in the region within and between which rail service should be provided.

The Secretary's report was issued last February 1. In essence, the report launched the rail planning process. The next step was for a new Rail Services Planning Office in the Interstate Commerce Commission to develop within 90 days a report containing an evaluation of the Secretary's recommendations after holding public hearings on his report. This report was issued on May 2. Now, the ball is in the U.S. Railway Association's court to prepare a detailed Preliminary System Plan based on the Secretary's report and the RSPO report.

At the heart of the Secretary's recommendations was the Congressional mandate to create a financially self-sustaining rail system that would provide adequate service. The system must produce an adequate rate of return on investment. This, in turn, is the product of efficient utilization of rail line capacity and freight cars, elimination of that portion of the capital plant which does not contribute to profitable operation, and the improvement of that part of the plant that will maximize adequate and efficient service.

The Secretary's report was responsive to the Congressional mandate. Let me summarize the fundamental thrust of its recommendations.

1. The principal focus of the reorganization process should be to improve the capital productivity of the industry so that the industry can attract the private financing needed for modernizing operations.

2. The greatest potential for these improvements is to be found in increasing the productivity of costly fixed plant and equipment, and by eliminating excess, uneconomical capacity.

3. These improvements can be accomplished at two levels -- interstate and local service. The most important of these is increasing the productivity of costly interstate infrastructure. Of secondary, but nonetheless, significant importance is the elimination of unnecessary branch-line capacity.

4. These improvements require a major, competitive reorganization of the railroad industry, with the objective of providing a sufficient aggregation of traffic volumes to achieve the economies inherent in rail transportation -- economies which cannot be realized under the present institutional organization of the industry.

5. A competitive reorganization must be balanced against the public interest in promoting competition in the provision of transportation services generally. This balance can be achieved through strong intramodal rail competition over the interstate network, and by consolidation of light density local service to single rail carriers. Multi-modal competition with motor carriers, coupled with existing or modified ICC regulatory authority, are the main instruments protecting the public interest in local service markets.

6. Finally, the Department is sensitive to the economic and personal dislocation which will inevitably occur if a basic restructuring is accomplished. The labor and local subsidy provisions of the regional rail bill address the social equity issues associated with implementation of the restructuring process. And, the Secretary fully intends to use his influence in assuring that the social objectives of the bill are met.

I mentioned that the ICC's comments on the Secretary's Report were released two weeks ago. I believe the recommendations of the ICC's Rail Services Planning Office are basically consistent with the Department's own recommendations, but some clarification is needed in terms of how our two reports interrelate.

Some press reports I have seen suggest that we and the ICC are in basic disagreement. Not so. We fully endorse the substantive thrust of the RSPO's set of 11 principal recommendations. Only one of the recommendations expresses an apparent rejection of a DOT recommendation, and this was based on a misintepretation of the branchline screening criteria we proposed.

The Commission's report states that "the (U.S. Railway) Association should reject the Secretary's method of determining branchline viability which was based primarily -- if not solely -- upon the number of carloads handled."

It is true that criteria in our report are based on carloads and distance. But these criteria were employed as a screening device to focus public attention on the problem, not to set an arbitrary rule on branchline viability. I should note that application of the criteria permitted us to separate lines which were clearly viable -- those lines generating 96 percent of the region's traffic -- from those lines for which more information was required before an assessment of viability could be made. Thus, the criteria allowed the public to concentrate attention during the recently-held ICC hearings on those lines (generating four percent of the traffic) that could be considered as "potentially excess" and requiring further analysis.

As we pointed out in the Secretary's report:

> "The purpose of the local service section of the report is to present criteria for separating those lines which have a high probability of being financially viable from those which are of questionable financial viability or have no hope of being financially viable. The screening process will allow the concentration of the analytical effort on those portions of the rail system where the continuation of rail service is not clear cut."

The fact is that we urged the Association -- before accepting any recommendations on local service -- to review the most recent data on rail traffic in the region. In addition, we pointed out that the criteria used to screen these points were based on <u>typical</u> revenue levels. Where <u>actual</u> revenue generated by the traffic at a given point is significantly above or below the <u>typical</u> or <u>average</u> figure, the probability of financially viable rail operation may change accordingly.

And, we discussed in other portions of the Secretary's review of local rail service the need for more detailed analysis of the lines identified as "potentially excess" operations.

I have reviewed these elements of the Secretary's report to underscore my point that there is no significant disagreement between our report and the ICC's report. Indeed, we are complimented that the Commission agreed with us in most respects. And, with our two efforts in hand, I believe the Association is better equipped to come to grips with the task of producing by next October a Preliminary System Plan.

I want to turn now to another element in my discussion -- the steps contained in a proposal we believe is necessary to avoid some of the problems of the Northeast and Midwest railroads. It's called the Transportation Improvement Act of 1974 -- TIA, for short. Plainly stated, we believe the railroad industry's problems nationwide are largely caused by an outmoded, overly restrictive Federal regulatory policy.

This policy, moreover, has seriously hampered the railroad industry's ability to adapt to changing economic and competitive conditions in the transportation industry. It has hindered the industry in innovating new services -- that could translate into greater productivity -- in responding to competitive conditions, in attracting traffic where the roads have competitive advantage, and in abandoning lines that are clearly uneconomic.

A cornerstone of the Transportation Improvement Act is improvement in the ratemaking system. The current system of rate regulation severely limits an individual railroad's freedom to establish rates. As a consequence, it has created serious rigidity and distortions in the railroad rate structure. The TIA would make a number of changes in existing pricing rules as a way to improve efficiency.

The TIA would provide that a rate decrease may not be found unlawful on the ground that it is unjustly or unreasonably low unless it is below variable cost. Under today's practice, rates may be found unlawful on the grounds that they are too low, even though the rates are compensatory. We believe this provision would encourage railroads to reduce rates on traffic where they have a cost advantage.

The TIA would also modify the law with respect to suspension of rate changes by providing that a proposed rate increase may not be suspended as being unjustly or unreasonably high if it is below the applicable class rate. On rate decreases, the bill provides that a rate may not be suspended on the grounds that it is unreasonably or unjustly low. But other grounds for suspension that exist in the Interstate Commerce Act today would remain, and the Commission would retain full authority to declare an increase to be unreasonably high after due investigation, and order escrow refunds.

These changes in the suspension provisions of the Act should introduce more flexibility in the pricing system and allow the railroads to use seasonal pricing as well as pricing designed to spread the transportation process more evenly through the year.

The present regulatory process has also resulted in the rates of one mode being held too high to protect another mode. The TIA would prohibit this, so long as the rate in question is not below variable cost. This provision should lead to more competitive and cost-related intermodal pricing.

With these changes, there should be a more economic division of traffic and more efficient use of transportation resources.

The TIA contains a number of other important provisions. It would make abandonment procedures more predictable and regular, providing in the process a more precise and appropriate standard for abandonments. It would require the ICC to prescribe uniform methods and criteria for estimating the rate of return on capital. It would prohibit discriminatory local taxation -- a problem that causes the railroad industry to pay some $50 million in discriminatory taxes. And, the TIA would prohibit subsidized rates for government shippers and make needed improvements regarding intrastate ratemaking.

Regulatory reform, however, is simply not enough. Because of the industry's low rate of return, many railroads are not able to generate adequate funds to make needed capital improvements. The failure to make these improvements means that opportunities for productivity increases, cost reductions and service benefits are being lost.

To respond to this problem, the TIA would provide $2 billion in Federal loan guarantees to finance improvements in rights-of-way, terminals, rail plant facilities and rolling stock. Conditions tied to the guarantees would assure that improvements make a significant contribution to overall efficiency of rail operations.

Another feature of the TIA would help the railroads by providing Federal-financed research and development of advanced technologies and operating techniques. We want to provide $35 million to design and put into operation -- that is, have the railroads put into operation, not the Federal Government -- a nationwide program for the efficient scheduling of freight cars. Our studies show that the typical freight car is idle about 85 percent of the time. Certainly, with today's sophisticated communications and computer capabilities, we can do far better than that.

The proposed TIA is focused primarily on the railroad industry because that industry presents the most immediate and pressing problems. Because of the competitive relationships among the various modes, we believe that improving conditions in the rail industry will lead to improvements in the competitive climate for the transportation industry as a whole.

But, we are also concerned about the health of the other modes. We have underway now a major research program designed to identify the need for regulatory change in the trucking and water carrier industries that will lead to carrier operating efficiency and better service. I'm pleased to say that our work is moving forward in cooperation with the ICC, carriers and shippers.

We believe this kind of activity by the Department will lead to greater productivity in the transportation industry. That's what we're there in Washington for; that's what you're here to discuss. I'm sure this important seminar will benefit us all in our quest for greater productivity. Good luck.

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DEPARTMENT OF TRANSPORTATION

NEWS

OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20590

33-DOT-74

REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY OF TRANSPORTATION (DESIGNATE) FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, AT A BOEING COMPANY 747 CARGO MARKETING MEETING - SEATTLE, WASHINGTON
THURSDAY, JULY 25, 1974

It was with a great deal of pleasure that I accepted Tex Boullioun's kind invitation to be your post-luncheon speaker today. It gives me an opportunity to focus on an increasingly important segment of our transportation industry -- air cargo. And, it gives me a chance to reflect on recent developments on the U.S. international air carrier scene that concern all of us.

Please be assured that the U.S. Department of Transportation regards the air cargo industry as a key element of an overall transportation network that must meet the public's need for fast, safe, dependable, efficient and convenient service. We are also vitally concerned about elements of the transport system that facilitate the development and improvement of coordinated transportation service. Air cargo -- with its expanding use of containers and intermodal support systems -- is an important element of this concept as well.

As some of you may have noticed, I'm reminded of air cargo every day as I walk into my office at the DOT Building in Washington. There, just as I enter, is a scale model of Boeing's 747F, complete with an "igloo" and various-sized freight containers. I've noticed the variety of names assigned to the full-size planes. Japan Air Lines refers to its 747F as the "Sumo"; Lufthansa, the first carrier to use the large capacity of the 747F, referred to its aircraft as the "Cargonaut". As a marketing concept, Northwest talks about "Supercargobility"; Air Canada refers to it as "EXPORTation", while Trans-Mediterranean speaks of "Exportise".

Just over a year ago, I addressed the Second Pacific Air Cargo Conference in Honolulu. I talked then about distribution problems as they pertain to air and ocean cargo, port problems, cargo handling and facilitation. I discussed developments involving the all-cargo jet, containers for wide-bodied aircraft and the potential size of the air cargo market. Statistics then indicated that we had a rapidly growing system before us. The statistics today are just as bright.

Recent reports confirm this prospect: A series of articles in the Journal of Commerce over the past few days, and a special report on air cargo in the June issue of Air Transport World. If you haven't read them, you should, as well as other recent reports, such as in Aviation Week & Space Technology, Container News and special features in Traffic World. Air cargo -- with its rapid development and growth and its startling innovations in productivity -- makes good copy because it portends increasingly significant benefits to the economy in the future. As I share your optimism about the industry's prospects, though, I'm reminded of a prayer allegedly given in such circumstances. With no irreverence intended, it goes: "O Lord, give us the wisdom to utter sweet and tender words, for tomorrow we may have to eat them".

I'm not so certain that I can be at once the optimist and pessimist that these words might imply. But I did want to open my remarks today by first noting the bright side of air cargo.

Prospects for growth, according to the reports I've seen, are simply glittering -- such as the projection of a 20 percent freight growth in 1974 among the world's air carriers. And last May, I noted that the U.S. scheduled carriers reported an increase of 11.5 percent in revenue ton miles of air freight in domestic and international service over May a year ago. In international service alone, the increase was a whopping 22.9 percent.

In large measure, containerization has accounted for a lion's share of the growth. One aviation expert has estimated that containerization could soon account for 50 percent or more of the air carriers' freight. Statistics add credibility to this projection. For example, while it was reported that scheduled carriers transported 13.6 percent more ton miles in 1972 than in 1971, container movements jumped in the same period by 86 percent.

The swing to greater use of containerization is easy to understand. Containerization reduces terminal handling and documentation costs; time in storage is minimized. Pilferage and damage, package costs and insurance costs are also reduced.

While air cargo has its bright side, however, it seems clear that there are serious problems that must be addressed in international aviation, concerning both passenger and cargo.

Some U.S. flag carriers are experiencing serious financial problems in their overseas operations. Pan American World Airways and Trans World have applied to the CAB for subsidies of nearly $300 million. And, U.S. supplemental air carriers operating in the North Atlantic are, as a group, projecting overall losses for 1974.

As many of you know, for the past four months--at the request of Secretary Brinegar--I have been coordinating the work of an inter-agency group that has developed an Action Plan to significantly improve the financial prospects of U.S. flag international air carriers. I'm frank to say that most of our attention has been focused on the passenger side of these airlines' operations. But not all our attention. Dick Jackson, of Seaboard, has met with us, and I believe a significant part of the financial problem we are trying to solve may well be due to unduly low cargo rates.

The problem was put squarely on the line by Mr. Jackson when he spoke last May 8 at a World Air Transport Conference sponsored by The Financial Times in London. He said:

". . . The air shipping community naturally wants the lowest possible rates, but rates which are consistent with a reasonable level of services. Such services can be provided only by an industry that is covering its costs and returning at least a modicum of profit to its owners.

"Yet," Mr. Jackson continued, "there is incontrovertible proof that the transatlantic air cargo carriers today, and for quite a period of time in the past, have been operating at a loss."

It is clear that the immediate cause of the carriers' current financial difficulties is the very rapid rise in fuel prices since last October. These escalating prices have caused severe short-term problems. But, in the process, they have brought into focus a more serious and deep-seated problem--the overall international regulatory regime that determines the competitive structure and practices of the airlines connecting the U.S. to other countries, especially those in Western Europe. This regime, we are convinced, is working to the disadvantage of U.S. flag carriers.

Pan Am and TWA have urged that they be paid a Federal subsidy, perhaps based on the difference in fuel costs experienced by the carriers. The CAB's position is that subsidy should be a last resort, but that we are at the point where subsidy should be resorted to. The Administration believes that subsidy should be a last resort, and we believe that non-subsidy steps can and should be taken as the way to restore the carriers to financial health.

The Administration's Action Plan focuses on improving conditions in five major problem areas through (1) a series of steps to deal with rates that are too low relative to costs, or too complicated; (2) a continued effort to identify routes that should be suspended, or combined or exchanged with those of another carrier; (3) development of agreements or other ways to reduce capacity that's in excess of likely market demand; (4) a "fly U.S. flag" program; and (5) reduction of discriminatory and inequitable practices of foreign governments against U.S. air carriers.

Just last Monday (July 22), we affirmed our commitment to rates that meet carrier costs by supporting before the CAB an agreement by carrier members of the International Air Transport Association (IATA) to raise passenger fares during the period between August 1 and October 31, and we continue to urge the carriers engaged in charter operations to agree on a compensatory charter rate floor.

Various parts of the Administration are carrying out the inter-agency task group's Action Plan. Some of the steps require carrier action; some need international agreements; others require CAB action or approval.

We believe the carriers should continue examining their own operations for opportunities to improve efficiency. For example, Pan Am and TWA could make gains through light-density route and service suspensions. A significant area for profit improvement appears to exist if the carriers could reach an equitable agreement on mutual suspensions or route exchanges on highly competitive North Atlantic routes.

North Atlantic transport capacity is excessive and some restraints may be desirable. There is also a need to balance capacities now flown to the U.S. by smaller nations and developing nations on a basis more closely related to direct country-to-country traffic demand.

We recognize that not all of the steps described in our Action Plan -- some of which I have highlighted--can be carried out this year. Many will have their pay-off next year. But, we firmly believe that enough of them will succeed soon enough.

I don't want to leave you with the impression that this Action Plan has totally preoccupied us at the DOT. We have created a new Office of Aviation Economic Policy and it will be quite busy in the coming months, working with me, Secretary Brinegar and Under Secretary Barnum to make our Action Plan produce results.

We're involved in other matters, too, and I'd like to discuss a few of these with you. First, let me focus on the perspective we have at the Department in working toward the improvement of our national transportation system. Our concerns cut across all modes of transportation and numerous constituencies--the public, users, carriers, labor, industry. Our goal is a system that operates efficiently and economically.

During the recent days of energy shortages, we worked to ensure that your industry and other transportation industries obtained the fuel to meet service demands and needs. We are working to increase the chance that the transportation system operates in a regulatory atmosphere that does not constrict its growth. We want to ensure that our transportation system functions on terms that are equitable and fair. In short, we want to help provide for the industry--and for the public dependent on its service--a finely tuned, responsive service network that operates effectively.

I won't ask you to raise your hands, but I'll bet that a good number of you do not know that a Statement of National Transportation Policy was delivered to the Congress this year by Secretary Brinegar. * It is worth your attention and scrutiny, because it is an accurate reflection of the current policy thrusts that direct our Department.

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*Statement before the House Appropriations Subcommittee on Transportation, March 5, 1974.

Part of the statement cites the U.S. air carrier industry as a vital element of the Nation's transportation system. The Secretary noted that although the system is mainly a passenger mode, "it will likely be increasingly important for highly specialized cargo as well." In another vein, Secretary Brinegar acknowledged the intermodal aspects of freight and passenger transportation, a subject that concerns many of you. He said:

"A major cause of inefficiency in both passenger and freight transportation is the lack of close coordination among the various modes. This problem is compounded by historical development of separate systems of terminals by each of the modes. A priority program is needed to lift unneeded restraints to intermodal cooperation, and to encourage the joint use of terminal and other facilities by all transportation modes."

We are heeding the Secretary's direction in a number of ways. Over a year ago, as an initial step in attacking the problems associated with intermodalism, we worked with the three transportation regulatory agencies (Civil Aeronautics Board, Federal Maritime Commission and Interstate Commerce Commission) in setting up an Interagency Committee on Intermodal Cargo, ICIC for short. The committee meets periodically to collaborate in the development and implementation of intermodal documentation applicable to domestic and international cargo movements. It also works to develop solutions to intermodal cargo problems.

Within the Department, we have set up a task force on intermodal transportation planning to improve intermodal coordination and management of our programs as they impact on other governmental units and the private sector.

We are approaching a better understanding of intermodalism in another way. We will soon undertake a major study on the intermodal movement of air cargo--an effort I hope will have your support. Our aim is to determine ways intermodal transport of air cargo can be facilitated, and its development promoted, through new regulatory approaches by the CAB and the ICC.

As you may know, both agencies hold differing views as to the size of areas surrounding air cargo-generating cities where surface transport of air cargo should remain unregulated by the ICC. Surface transport in these areas is under control of air carriers providing air freight service, the airlines and air freight forwarders. Outside these areas, freight service is provided by certificated motor carriers.

We recognize, as you do, that the restriction of these zones has an important impact on air freight development. So, another objective of the study will be to determine if this impact is desirable from the shipper's point of view, on the basis of shipper needs.

The study will proceed with an analysis of domestic air freight service, with particular regard to intermodal aspects of that service. It will cover airlines, air freight forwarders and surface carriers of freight. The shipping needs of 25 of the largest domestic air freight shippers will be analyzed, based on number of shipments rather than on tonnage. We expect the study to produce an affirmative action program by the Department to facilitate intermodal transport of air cargo, and we welcome your cooperation.

As concepts, facilitation and intermodalism are not new in the Department's approach to transport problems. Considerable progress has been made, in cooperation with transportation industry groups, in simplifying the massive paperwork logjam associated with international freight movements.

Looking ahead, we anticipate that the total transport system in the U.S. may have to double over the next 20 years. With such expansion, we must continue to hammer away at removing or reducing unnecessary documentation and related paper-shuffling that currently costs us over $6 billion a year, a sum that represents 7.5 percent of the value of America's imports and exports.

Working with private groups, a concept known as CARDIS--Cargo Data Interchange System--was developed. The CARDIS data system will provide an efficient means of exchanging cargo information without holding up shipments in the process. It will replace paperwork and reduce costs. But to be fully effective, it will also require a high degree of continued cooperation between business firms, carriers, Federal agencies, and foreign countries and international organizations. It's a long-range project--perhaps coming on line in 1976--but it holds the prospect of significant long-term benefits in the transport of domestic and international freight.

These are only a few of the programs underway at the Department to improve our transport system. I have appreciated this chance to discuss some of our current work, and I hope my faith in a privately-owned air transportation system has been evident.

If my remarks have stimulated a thought that we won't have time to deal with adequately here, let me assure you that I'll want to pursue it back in Washington--so, please don't hesitate to give me a call. You make up the system that I'm working to support and strengthen--and not over-regulate.

Good luck.

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DEPARTMENT OF TRANSPORTATION

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REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, AT A CONFERENCE ON NATIONAL TRANSPORTATION POLICY, SPONSORED BY THE COUNCIL ON TRANSPORTATION LAW OF THE FEDERAL BAR ASSOCIATION, WEDNESDAY, SEPTEMBER 4, 1974

I am pleased that the Council on Transportation Law has scheduled this conference on national transportation policy -- a subject that has been a transportation "buzz word" for a good many years. It has also been a subject involving considerable debate, penetrating study and optimistic concern.

With such attention, one would assume that by now at least we would have a commonly accepted definition of what we mean by the term "national transportation policy." Unfortunately, we do not, but I am hopeful that the work we have done -- and continue to do -- at the Department of Transportation will help all of us -- in government and business, whether we are shippers, carriers or consumers -- to understand what national transportation policy is all about.

I am particularly pleased to be with you today, and I commend the conference's sponsors for focusing on national transportation policy as today's theme.

Transportation is like the air we breathe -- it's all around us, and it involves and affects all of us in many ways. We also tend to take it for granted until it is fouled up. That distresses me. Transportation is such a vital element of our national economy, it deserves our continuing attention. Of course, there are more good things about transportation than bad. The United States has the finest transportation system in the world. But, we cannot escape this challenge: We must improve those elements of the national transportation system that are not working so well.

My remarks this morning will address some significant problem areas within the framework of the Department's conception of national transportation policy. I hope you are familiar with that framework: The Statement of National Transportation Policy which was submitted to the Congress by Secretary Brinegar earlier this year. He would be the first to say that it is not the definitive or ultimate policy statement but don't be misled. It is meaningful, and is already shaping the programs of the Department.

Let's turn now to theissues in the context of the Department's transportation policy principles.

The overriding thrust of Federal policy is to ensure that the Nation has an overall transportation system that reasonably meets its essential needs. To the maximum extent feasible, this system should provide transportation that is efficient, safe, fast, convenient, and limit its negative impact on the environment. When the system does not operate to meet these objectives, we must act decisively.

The condition of U.S. flag international air carriers, for example, is of great concern to us. Some carriers are experiencing serious financial problems. Pan American World Airways and Trans World Airlines applied to the Civil Aeronautics Board earlier this year for subsidies of nearly $300 million. The U.S. supplemental carriers operating in the North Atlantic, as a group, have projected overall losses for 1974. Within the past month or so, TWA and Pan Am have asked the CAB for interim subsidy payments while the subsidy case is heard. Indeed, Pan Am says it cannot operate past October or November without a subsidy of $10 million a month.

One immediate cause of the carriers' financial difficulty is the very rapid rise in fuel prices since last October. Another is the drop in anticipated traffic this summer. But these difficulties have brought into focus more serious and deep-seated problems--the overall international regulatory regime, the current competitive structure, and the practices of some foreign airlines and their governments. We are increasingly convinced that these elements are working to the disadvantage of U.S. flag carriers.

For the past several months--at the request of Secretary of Transportation Brinegar -- I have been coordinating the work of an interagency task force that has developed an Action Plan to significantly improve the financial prospects of the international air carriers. Underlying our work is the belief that non-subsidy steps can be taken to help restore the carriers' financial health.

The Action Plan focuses on improving conditions in five major problem areas through (1) a series of steps to deal with rates that are too low, relative to cost, or too complicated; (2) a continued effort to identify routes that should be suspended, or combined or exchanged with those of another carrier; (3) the development of agreements or other ways to reduce capacity that is in excess of likely market demands; (4) a "fly U.S. flag" program, and (5) reduction of discriminatory and inequitable practices by foreign governments against U.S. air carriers.

We recognize that not all of the steps in our Action Plan can be carried out this year. Many will have their pay-off next year, and we firmly believe that they constitute the effective and equitable approach to the improvement of the health of our international air carriers.

Our approach to the problems of the carriers is in accordance with the elements of policy that Secretary Brinegar presented to the Congress earlier this year. One of the most fundamental of these is that the Nation's transportation system should, as much as possible, be provided through the competitive forces of the private sector. In developing and implementing the Action Plan, we have been guided by another of the Secretary's policy elements; namely, that the government must take steps to solve transportation problems so as to preclude the need for Federal takeover or "nationalization."

Let me shift modes on you, to show that we applied the same policy principles as we strove with Congress and others to resolve the difficulties that beset the financially-depressed Northeast and Midwest railroads. The Administration and the Congress have moved to create a financially self-sustaining rail system that will provide adequate service and produce an adequate rate of return on investment. The restructuring process began last February with issuance by the Secretary of a report outlining the character of service that would be provided by a modernized and reshaped rail system.

The recommendations in the Secretary's report were built on several important policy criteria:

1. The principal focus of reorganization should be to improve capital productivity of the industry so it can attract private financing needed to modernize operations;

2. Improving capital productivity requires a major, competitive reorganization of the railroad industry in the Northeast quadrant of our country, with the objective of providing a sufficient level of traffic volumes to achieve the economies inherent in rail transportation--economies which cannot be realized under the present institutional organization of the industry;

3. A competitive reorganization must be balanced against the public interest in promoting competition in the provision of transportation services generally through strong intramodal rail competition over the interstate rail network, and by consolidation of light density service to single rail carriers, and

4. The Department was sensitive to the economic and personal dislocation which might occur as a basic restructuring is accomplished.

Our work on the Northeast rail problem was largely curative. But when it's possible, we should lend our energies to preventative work. And we are, by focusing on the problems of the industry that appear to be caused by an outmoded and overly restrictive Federal regulatory policy. We must deal forcefully with constructing such changes in our regulatory scheme to make our transportation system healthier and more competitive.

To that end, the Department proposed the Transportation Improvement Act of 1974, a bill that will increase the ability of the industry to effectively meet changing economic and competitive conditions. Up to now, the industry has been hindered in innovating new services, in responding to competition, in attracting traffic where they have a competitive advantage and in abandoning lines that are clearly uneconomic.

The Transportation Improvement Act and related bills are now being marked up by the House Interstate and Foreign Commerce Committee. We need this legislation, to make progress toward reducing inefficiency of railroad operations; to permit the lines far more pricing flexibility, so that they can compete more effectively for traffic on which they have a cost advantage; to allow management greater freedom to abandon uneconomic rail lines; to limit the power of rate bureaus, and reduce the inhibiting influence of rate bureaus on competitive ratemaking.

The TIA was focused primarily on the railroad industry because that industry presents the most immediate and pressing problems in our domestic surface transportation system. We believe that improving conditions in the rail industry will lead to improvements in the competitive climate for the transportation industry as a whole. But coming along behind the TIA are further proposals that reflect the Secretary's policy tenet that all of the economic regulation of interstate transportation needs to be thoroughly reexamined to determine which parts are necessary, as a minimum, to protect the public interest, and those which, through the passage of time, have become more of a burden than a help. We believe that a significant streamlining of this regulatory process is in order, directed to a greater dependency on the forces of open-market competition and with particular attention to eliminating restrictions on intermodal competion.

In keeping with this philosophy, the Department has also undertaken a major regulatory research program to identify the need for regulatory reform in the motor carrier industry. Phase One of that program has been underway for the past eight months, and is scheduled to be completed next month. The objective of this effort is to see whether regulatory reforms are needed and, if needed, whether they can be (and are likely to be) achieved by the administrative process, or whether legislation is needed. If a trucking regulatory reform bill is needed, it will be submitted to the next Congress.

I would like to tell you more about this and other programs because they deal with a key element of the Department's policy thrust which is clearly identified in the Secretary's Policy Statement. This is the need to eliminate outmoded regulatory restrictions and to allow wider scope for market competition in the transportation industry.

Our trucking research program has had a great deal of cooperation from carriers and shippers. Its major focus is to identify the waste, inefficiencies and service problems associated with the present regulatory system. We want to identify and quantify these wastes, inefficiencies and problems.

We are examining a number of subjects, including policies of the ICC regarding certification, certificate restriction, commercial zones, rate bureaus, pricing and restrictions on private carriers. Economic theory suggests that greater reliance on market forces in the trucking industry would also improve the industry's performance. If we find that regulatory impediments are hindering the industry in recognizing and reacting to the opportunity to improve services, we will want to reduce or remove the impediments.

Many trucking firms today have mixed feelings about the current system of Federal regulation. Many see regulation as a protection against destructive competition, against unstable economic conditions and unfair pressures from shippers and competing modes of transportation. We hope to determine how much regulation is needed to achieve these objectives. Do we need all the protection in the existing regulatory structure or could these protections remain if some other regulatory policies are adopted? We believe the answer to this question is not now available and not easy to develop. The aim of our research effort is to provide the answer.

Trucking service today is meeting unexpected challenges from the energy shortage, as are other transportation modes. The reduction of the national speed limit to 55 miles per hour, which the Department has supported, has had the effect of increasing the cost of trucking and has reduced trucking capacity. There were important trade-offs in this action: Fuel savings and a reduction in traffic fatalities have been recorded. So, we have looked to changes in regulatory structure and service innovations as a way to increase industry viability-- for example, through increasing the size and weight of carrier equipment to increase productivity.

Our work in pursuit of the policy of greater competition through less regulation will continue this year and into 1975. We will be focusing on other important regulatory questions to support our continued intervention in major proceedings before the various Federal regulatory agencies -- the ICC, the CAB and Federal Maritime Commission. We will pay special attention to regulatory matters as they pertain to air passenger and ocean freight transportation, and we will examine the effects of State and local economic practices on the transportation process.

And, as an extension of the Department's effort on the TIA, we will examine whether and to what extent further regulatory reform in the railroad industry is needed. A particular focus will be made on the question of railroad merger policy. Is there a need for changes in existing merger regulatory policy? Are such changes a prerequisite to major progress toward a needed rationalization of our national railroad industry?

My remarks thus far have concentrated on the regulatory aspects of transportation policy. Now, I would like to address additional elements of national transportation policy as they pertain to finances involving our airports and airways system and urban transportation needs.

The Department's policy on Federal expenditures used to finance transport investments or operations is to recover such expenditures from the users and other beneficiaries in a manner that is appropriate to the degree of benefits received, unless widely accepted national policy directs otherwise-- and I do not believe it directs otherwise. The Department's work on a Cost Allocation Study-- which was directed by Congress in the Airport and Airway Development and Revenue Act of 1970 -- responds to this policy requirement.

A year ago, Secretary Brinegar sent to Congress Part I of the study; it concluded that: (1) The overall level of cost recovery from the present system of aviation user taxes is inadequate; (2) the degree of cost recovery varies considerably among different classes of users of the aviation system, and (3) the tax structure itself provides little incentive for efficient use of the system.

Part II of the study is currently underway. It will contain recommended changes in the cost recovery method and proposals for legislative action to implement them.

As Secretary Brinegar said to Congress, "We have concluded that it would be inappropriate to submit legislative proposals until we understand near-term (energy) issues more clearly. We will continue our analysis with the aim of submitting legislation to the Congress as soon as it appears appropriate to do so." In the meantime, our analysis of energy impacts is continuing.

Apart from completion of the analysis, we have already concluded that certain costs of operating the Federal airport and airway system should be eligible for financing from the Airport and Airway Trust Fund. We favor legislation to authorize appropriations from the Treasury to cover the cost of the airport and airway system which are properly applicable to public use, including a share of the investment now fully funded by civil aviation user taxes, as well as the cost of all safety regulatory activities and certain overhead expenses of the Federal Aviation Administration.

As the Secretary's Policy Statement puts it: "Direct Federal financing of transport investments or operations should be limited to those few cases where there is a clear and widely accepted requirement for concerted action in an area of high national priority and where the private sector or State and local governments are incapable of adequately meeting this requirement." For example, the severe transportation problems present in our large urban areas-- and the relationship of these problems to other urban issues-- require a special Federal effort, including some general taxpayer support.

Even here, however, we must be sensitive to the reality that Federal funds are not limitless. This point was recognized by the House in approving last month a six-year, $11 billion urban transportation program that calls for Federal assistance to defray transit operating cost (one-third Federal, two-thirds State/local) and Federal grants for capital programs (three-fourths Federal, one-fourth State/local). I hope the Senate takes similar action-- particularly as to the $11 billion funding level in recognition of the unacceptable inflationary pressures that a higher funding level would create.

The Department's approach to urban transportation problems was described in the Secretary's Policy Statement. It involves: Encouraging the establishment of non-Federal governmental mechanisms that embrace the full urban area, with authority to make and implement all relevant urban plans; encouraging the development at the local level of urban plans that properly relate transportation needs to future land-use plans and community development objectives, and development of plans that are appropriate to the structure and size of the urban area.

Particularly important, in the Department's view, is the need to encourage urban areas to stress public transportation plans directed to using existing transit systems and highways more effectively. This can be accomplished through developing high-quality bus systems, expanding jitney and taxi service, promoting incentives to carpooling, and instituting changes in existing traffic patterns by stretching out and reducing rush-hour peaks.

As part of this process of maximizing Federal investment payoffs in urban transportation programs, it will be our policy to examine very closely any proposal for construction of totally new fixed-guideway transit systems to determine whether it is the most cost-effective solution to a specific urban situation. We are hard at work developing new capital grant criteria to establish future project eligibility for Federal funds. We want to encourage more thorough analysis of transit alternatives in responding to urban transport needs, while at the same time preserving local options in developing transit improvements. Of necessity, local urban planners must assume a greater responsibility in choosing between the urban transportation alternatives.

As Secretary Brinegar said recently: "More responsible local decision-making should improve the quality of planning and increase the productivity of the resulting investment. To this end, we favor providing Federal funds that are both dependable over time and flexible in use. As part of this move, we would like to see the bulk of the Urban Mass Transportation Administration and urban highway programs brought under a single, long-term funding process."

Our emphasis on the need to obtain maximum payoff from existing transit and transportation programs, however, does not mean that we will abandon our efforts to explore the benefits of new technology. I am indicating simply that Federal research and development work in transportation should be directed to a limited number of programs with a high potential payoff to the Nation as a whole, and to those programs that cannot be adequately handled without some Federal support.

Let me cite a few examples of some near-term programs that meet this criteria: The need to improve energy efficiency in all transportation systems, especially in automobiles; improving motor vehicle, driver and highway safety; improving the air traffic control system to increase the capacity of the airways, and improving highway traffic control for automobiles and buses.

As we strive to optimize the benefits of the programs I have discussed, I can assure you that the Department is also highly sensitive to the constraints imposed on all of us by the energy shortage. Frankly, I consider these constraints to be opportunities to develop and implement new approaches to transportation problem-solving. Where possible, energy limitations should be turned into transportation pluses, provided we have the boldness to reorient our traditional decision-making processes. The Department intends to approach transportation policy development and implementation with such determination, and we welcome your help.

Underlying our work on national transportation policy is the overall level of knowledge about the Nation's Transportation system, its capabilities and its problems. We also need to strengthen our analytical effort at the Federal level to improve our ability to identify potential problems before they seriously affect overall system capability.

One approach to improving our analytical process is our work on the National Transportation Report series. Some of you may remember the first report, issued in 1972. The 1974 version will be published in a few months. It will present a comprehensive picture of the current status of the Nation's transportation system and a view of its future in terms of the plans and programs for transportation development currently envisioned by the States and local governments. This comprehensive picture will include not only physical characteristics, usage patterns and costs, but also information regarding the performance of the current and future systems.

In other words, we will know the level of transportation service which passengers and shippers are receiving today and be able to estimate how it will change in the future if the plans and programs are implemented.

The 1974 National Transportation Report will also contain a study of the quality of transportation service currently received as seen by industrial shippers, and analyses of selected issues in urban and intercity transportation. All of this information will be useful in developing Federal transportation policies.

I hope you were aware of the 1972 report, and I urge you to focus on the 1974 effort. It is bound to be a significant influence on national transportation policy.

During the past few minutes, I have tried to point out instances where my Department's approach to transportation problems is consistent with the Secretary's Statement on National Transportation Policy presented to Congress last spring. This may have surprised some of you, and that would not surprise me, because not much attention was given to it by the transportation industry generally.

Let me suggest that those who are principally concerned about the formation of Federal transportation policy reflect on the policy statement's content. The Secretary has made clear that he wants a dialogue. His statement of policy is a kind of progress report. The next statement should reflect improvements.

To those who have taken the time to study the Statement, I commend you. I also encourage you to continue your own study of transportation problems in a broad perspective. Let us have the benefit of your analyses as they are developed.

As a way to facilitate increased attention to the Statement, I will have sufficient copies of it available for distribution at the end of the conference.

I began my remarks today by observing that we do not yet have a commonly accepted definition of what we mean by the phrase "national transportation policy". I freely predict that some of you will read the Secretary's Policy Statement and say: "That's not a Policy Statement". Well, we're prepared to have a dialogue on shape as well as substance. But we hope we can develop a consensus that transportation policy guides the way government at all levels moves toward the attainment of established goals by the selection and development of specific action programs. As set out in the Secretary's Policy Statement, policy development is seen as the decision-making process by which we select from available alternatives those courses of action which are best calculated to attain certain goals and, at the same time, be most compatible-- or at least consistent-- with other sometimes conflicting goals.

Your talents, expertise and understanding are required in that process to make it totally effective. We share a common challenge. I assure you that we will press on at the Department of Transportation to discharge our responsibility in the policy process. I fully expect that you will do the same.

I welcome your support and involvement. Thank you.

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STATEMENT OF ROBERT H. BINDER, ASSISTANT SECRETARY FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, U. S. DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON ADMINISTRATIVE PRACTICE AND PROCEDURE OF THE SENATE COMMITTEE ON THE JUDICIARY ON CHARTER AIR FARES, THURSDAY, NOVEMBER 7, 1974.

Mr. Chairman and Members of the Subcommittee:

As a general principle, DOT believes that rates for transportation services should be at compensatory levels. Since 1972, we have urged the Congress to prohibit domestic surface transportation rates from being below cost. Acceptance of this principle was signalled by the Report of the House Interstate and Foreign Commerce Committee last month on the Surface Transportation Act, H.R. 5385. We also believe that rates for scheduled and charter air services should be compensatory.

DOT further believes that as a general rule, rates should be set in a competitive environment by carriers acting unilaterally. We have espoused such principles in domestic transportation and urged increased price flexibility for surface transportation. We also have asked the Civil Aeronautics Board to establish a cost-oriented zone of reasonableness within which domestic air carrier rates may shift up and down free from Board regulation as to "reasonableness."

International air transportation, however, has reflected different policy principles. Since World War II, this country has repeatedly endorsed the concept of permitting the International Air Transportation Association to establish scheduled rates for air transportation between the United States and various foreign countries. Any agreements on rates among IATA carriers are, of course, subject to scrutiny by the Civil Aeronautics Board before they are permitted to become effective. Agreements adverse to the public interest are disapproved. The use of IATA ratemaking was endorsed by the President's 1970 Statement of International Air Transportation Policy. Charter rates, on the other hand, have not been incorporated in IATA agreements but have been reflected in individual carrier tariffs. This practice, too, was endorsed in the 1970 Policy Statement.

Prior to international air fare legislation in 1972 (P.L. 92-259), the Civil Aeronautics Board had no authority to reject or to suspend non-compensatory international air rates: scheduled service or charter. Its only authority was to disapprove an IATA scheduled fare agreement.

The international air fare legislation did, however, grant the Board authority to suspend and reject tariffs that are non-compensatory, any such decision being subject to the veto of the President. Since 1972, the Board has acted to suspend scheduled passenger rates that appear to be non-compensatory, but to date, the Board has not yet exercised its authority to suspend or reject any passenger charter rates.

In January 1973, DOT urged the CAB to undertake an investigation regarding scheduled and charter air fares and costs on the North Atlantic. The Summary in our filing at the CAB shows what our concerns were at that time:

> "The Department of Transportation has several objectives: We are anxious to encourage the availability of low-cost air transportation for the traveling public. We are anxious to support the simplification of the North Atlantic air fare structure. We want to avoid what might be considered predatory competitive practices, particularly the charging of non-compensatory rates by scheduled airlines in competition with charter services. We also want to prevent the charging of charter rates that are not compensatory. And we want to encourage the CAB to hold an expedited investigation into the level and structure of air fares across the North Atlantic, so as to influence the fare structure that is adopted by the carriers for use during the winter season of 1973 and thereafter." (Complaint of the DOT in Docket 25101, filed January 9, 1973, at page 2.)

I have appended to my testimony a description of the IATA carriers' profitability across the North Atlantic from 1968 to this year. It shows that 1970 was barely a break-even year for operating profits, and every year since has seen increasing operating losses. 1973 saw losses of $130 million; this year the loss has threatened to reach $300 million.

Another appendix to my testimony shows a basis of our concern. In 1973, three major U. S. supplementals posted operating losses for trans-atlantic operations. The pattern worsened for the year ended March 1974, where four of the five major supplemental carriers showed losses exceeding $25 million, a fourfold increase over 1972 losses. In addition, in 1972 both American Flyers and Universal went out of business. More recently, two of the five supplemental carriers serving the North Atlantic have filed for merger approval, while two others have explored the possibility of merger.

Of particular relevance to your inquiry today, we asked the Board, in January 1973, "to suspend and investigate any charter fare that is below a cost-based minimum" (page 3). The Board did not act to suspend any charter rates in 1973. Instead, the Board proposed in September 1973, a rulemaking to declare as prima facie unjust and unreasonable, charter rates which fell below certain minimums, and to state the Board's intention to suspend such rates. DOT supported this concept proposed by the Board which we understood to be based on the policy that charter rates should be compensatory. However, we urged a hearing to collect the necessary cost evidence and to take testimony regarding appropriate charter pricing policies.

As the Board was considering these issues, the carriers who operate charter services sought authority from the Board to discuss and agree on minimum charter rates--any such agreement subject to CAB approval. The Board gave the carriers such authority, but the carriers failed to reach agreement on such minimum rates at various meetings held over a period of many months. One of the carrier meetings at which minimum charter rates were discussed was held last month at the Department of Transportation at the invitation of the Department. Several weeks later, the CAB issued their current guidelines on minimum charter fare levels. (CAB Regulation PS-57, issued October 18, 1974).

During the past several years, there also have been discussions between the U.S. and foreign governments about the level of charter rates across the North Atlantic, and several European governments have acted to establish minimum levels of rates based on their view of compensatory rate levels.

DOT is presently studying the Board's charter rate guidelines. While we endorse the principle that charter rates should be compensatory, and that some regulatory intervention by the CAB appeared to be needed at this juncture to implement that principle, DOT has problems with significant aspects of the guidelines that the Board has issued. For example, we are troubled that the guidelines adopted by the Board appear to be in part demand based, rather than cost based, since they reflect seasonality factors. The Board's decision to have only one equipment-size rate break instead of the three that the carriers had identified may not reflect the differences in equipment efficiency. We are also reviewing the Board's definition of the costs which the guidelines are supposed to cover. We intend to discuss our analyses of these guidelines with other interested elements of the Executive Branch.

DOT intends to watch closely the impact of the Board's minimum rate guidelines, and we intend to keep the issue of minimum charter rates under constant review. While we do not endorse the concept of the Board's established minimum charter rates as a part of our long-term aviation policy, in the short run we see a need for this interim measure to avoid destructive pricing practices. In this regard it should be noted that the guidelines apply only in calendar year '75, and only to the North Atlantic. In addition, by the terms of the guidelines, carriers may file rates below the guidelines if the rates can be justified in terms of costs, and we would expect the Board to act expeditiously in considering such filings.

As I believe you already know, Mr. Chairman, the establishment of a compensatory air rate structure across the North Atlantic is part of the Administration's Seven Point Action Plan for Improved Profitability in International Air Carrier Operations. Part of that compensatory fare structure is the need to assure that charter fares are compensatory. We have been working to implement that action plan for the past several months.

Although compensatory charter fares are part of our action plan, Mr. Chairman, I want to make clear that our efforts in this area began long before Pan Am's current cash crisis began. As the history of the last several years shows, compensatory charter fares were made a part of the action plan because they were a well established objective of the Department, and because so much progress had been made toward their establishment by the Board and by the carriers.

Appendix A

ESTIMATED IATA NORTH ATLANTIC CARRIERS' PROFITABILITY
1968-1973

	Total Opn. Rev. (millions)	Total Opn. Exp. (millions)	Opn. Profit (millions)	Deficiency in Earnings 1/ (millions)
1968	$1,004	$932	$70	($86)
1969	1,142	1,079	63	(120)
1970	1,286	1,284	2	(236)
1971	1,389	1,488	(99)	(374)
1972	1,625	1,652	(27)	(333)
1973	1,833	1,963	(130)	(492)
1974	--	--	(300)2/	--

SOURCE: IATA Publication, North Atlantic Passenger Report, May 1974

November 5, 1974

1/ Includes a 10% return on investment plus taxes. Averages about 17% above operating expenses.

2/ Forecast by IATA

Operating Profit (Loss) - North Atlantic Services
U. S. Supplemental and IATA Carriers
(In Thousands of Dollars)

	1972	1973	Year Ending March 31, 1974
Overseas National	($ 2,427)	NA	($ 6,669)
Saturn	489	$ 2,090	162
Capitol	(105)	NA	(1,254)
World	(3,674)	(12,397)	(17,437)
Trans International	209	(56)	(40)
IATA Carriers	(27,000)	(130,000)	(300,000) *

* For the 1974 Calendar Year, IATA has projected North Atlantic operating losses (all services), at $300 million. The two U. S. IATA carriers, Pan Am and TWA, reported $15.3 million in operating losses for charter operations in the North Atlantic (year ending March 31, 1974).

Source: CAB Transatlantic
Route Proceeding
IATA