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STATEMENT BY ALAN A. BUTCHMAN,
DEPUTY SECRETARY OF TRANSPORTATION
BEFORE THE UNITED STATES
CIVIL RIGHTS COMMISSION, ON AGE DISCRIMINATION IN
FEDERALLY-ASSISTED PROGRAMS
September 27, 1977

Mr. Chairman and members of the Commission:

Thank you for your invitation to discuss the Department of Transportation's activities to improve transportation for our Nation's senior citizens.

With me today is Martin Convisser, Acting Assistant Secretary for Environment, Safety, and Consumer Affairs.

The improvement in the quantity and quality of transportation services for this Nation's senior citizens is an important element in the Department of Transportation's programs. Activities that are sponsored by the Department for the achievement of this objective, particularly in the field of mass transportation, include the support of (1) research aimed at identifying the transportation problems experienced by senior citizens; (2) development activities aimed at uncovering hardware solutions to physical barriers encountered by the elderly in transportation systems; (3) demonstrations that are designed to develop service strategies as a means of improving the availability of transportation services; (4) planning assistance for transportation planners and providers to enable them to plan and provide transportation services that are geared toward meeting the special transportation needs of senior citizens; and (5) grants to help pay for the cost of purchasing and operating mass transit facilities and equipment for the general public, and especially for the elderly and handicapped.

In these efforts, we work closely with the Administration on Aging (AoA). Since 1974, that relationship has been formalized in an interagency agreement between the Department and AoA, which I will describe briefly later in my testimony.

Let me now give some specific examples of how the resources of the Department of Transportation are being used to help improve transportation services for the elderly.

Research

In the area of research, the Department is supporting studies that are designed to (1) identify driver licensing requirements for older drivers; (2) identify motor vehicle design deficiencies that might lead to accidents by elderly and handicapped drivers; and (3) identify driver visual limitations of the elderly driving population and treatment requirements for correcting the vision problems. These are but a few examples of research underway in the Department with respect to transportation for the elderly.

Development

Secretary Adams' Transbus decision of May 19, 1977 represents a significant outgrowth of a Transbus development project supported by the Department. This decision mandates that all new federally-financed mass transit buses ordered after September 30, 1979 must have an effective floor height, including a "kneeling" feature, of not more than 18 inches, and a ramp for boarding and exiting. The ramp device will make boarding and exiting far easier for elderly passengers, who often have difficulty in climbing the high steps of current transit buses.

Demonstrations

The Department is presently supporting two demonstrations to test the concept of user subsidies for elderly and handicapped persons. We anticipate that by subsidizing the elderly and handicapped's transportation costs, they will be able to obtain needed transportation services directly from existing providers of such services.

Under the Rural Highway Public Transportation Demonstration program established by section 147 of the Federal-Aid Highway Act of 1973, the Department is now supporting a total of 106 demonstration projects in 48 states. The selection and evaluation criteria for application for funds under this program specifically require consideration of the adaptability of transportation systems to the needs of elderly and handicapped persons.

Another demonstration project that is being supported by the Department is one which is designed to determine the extent to which transportation for the elderly and handicapped can be improved by coordinating the transportation resources of various social service agencies, public transit agencies, and private transportation providers.

Planning Assistance

The Urban Mass Transportation Administration and the Federal Highway Administration provide financial and technical planning assistance to approximately 250 metropolitan and 50 state agencies. These agencies are

now required to make "special efforts" to plan public mass transportation facilities and services that can effectively be used by elderly and handicapped persons.

Construction Activities

As of July 1, 1976, a Federal-aid highway requirement has been in effect which requires states to provide adequate and reasonable access for the safe and convenient movement of physically handicapped persons, including those in wheelchairs, on all new or improved curb construction projects at all pedestrian crosswalks in the state. This activity can be especially helpful to elderly pedestrians who often have difficulty in negotiating curbs.

Capital Grants

In addition to these activities, the Department makes available grants to public agencies, and, through them, to private agencies, to assist in the purchase and operation of mass transportation equipment. These capital grants fund up to 80 percent of the cost of buses and other capital equipment. Recipients of such federal financial assistance may not charge elderly and handicapped persons during off peak hours more than one-half of the regular fare charged nonhandicapped and elderly during peak hours.

Also of considerable importance, under section 16(b)(2) of the Urban Mass Transportation Act, the Department awards grants specifically to assist private non-profit organizations and agencies in the acquisition of capital equipment for the provision of transportation service to the elderly and handi-

capped. Since the program began in fiscal year 1975, a total of \$31 million has been committed to almost 1,200 private nonprofit organizations and agencies. These organizations have received close to 3,000 vehicles to assist them in the provision of much needed transportation services for elderly and handicapped persons all over the country, in both urban and rural areas.

Let me give you two examples of how these funds are used. In Boston, Massachusetts, Federated Dorchester, a non-profit agency, is presently operating a total of seven vans, five of which are purchased with funds under the section 16(b)(2) program. These vans carry approximately 1,500 persons per month to medical, nutrition, shopping, and recreation centers.

In Lower East Side New York, Easy Ride, a free bus service supported primarily with federal funds and operated by the Vera Institute of Justice, provides about 1,000 rides per week to elderly and disabled persons. When the program began about a year ago, elderly persons called only for transportation to medical appointments. Now, Easy Ride is taking them to beauty salons, museums, and other points of cultural interest. The project manager believes that the transportation service provided by Easy Ride reduces medicare costs by providing social service activities for patients who formerly went to a physician's office primarily to talk to someone. Further, she believes that it reduces the length of hospital stays by making it easier for the patient to return for needed care on an out-patient basis.

Transportation Safety

Under the State and Community Highway Safety Program of the National Highway Traffic Safety Administration, states are encouraged to plan and execute their own projects to benefit the elderly using federal, state, and local funds. Broad federal guidelines are provided to states in the areas of instructional programs, pedestrian safety programs, special course materials about the elderly for driver education instructors, and driver simulations and audio-visual aid information for the elderly. Projects that have been carried out by some states include instructional programs for senior citizens in highway safety and driver improvement programs for the elderly.

During the past several years, there has been considerable discussion among public officials, operators of public and private transportation systems, and administrators of social service agencies about how the lack of government coordination among federal, state, and local agencies and public transportation operators contributes to the fragmented nature of transportation services for older people. In an effort to foster coordination at the federal level, a working agreement was signed between the Administration on Aging and the Department of Transportation in June, 1974. It represented a major step in coordinating federal-level activities to improve the mobility of older

persons, and was intended to be used as a tool for coordination at the state and local levels. The agreement focused primarily on the 16(b)(2) program of capital grants to nonprofit organizations for transportation projects specifically serving the elderly and handicapped. Funds for this program, authorized under section 16(b)(2) of the Urban Mass Transportation Act of 1964, became available for the first time in FY 1975. The joint working agreement encouraged the establishment of close working relationships between the State and Area Agencies on Aging and the state agencies designated to administer the section 16(b)(2) program (generally state departments of transportation or state highway commissions), and the local service providers.

Subsequent to the signing of the 1974 working agreement, a number of legislative and administrative actions necessitated an update of the agreement to encourage continued growth of coordinated transportation activities at the state and local levels. Those developments include:

- ° Implementation of the Rural Highway Public Transportation Demonstration Program authorized by section 147 of the Federal-Aid Highway Act of 1973, as amended, which I mentioned earlier;
- ° Mandated reduced mass transit fares for elderly and handicapped persons, authorized by the National Mass Transportation Act of 1974;

- ° Authorization of \$500 million under the above-cited act for capital assistance to non-urbanized areas; and
- ° Publication in the Federal Register of UMTA's proposed rules governing public transportation for the elderly and handicapped.

In September 1975, the 1974 agreement was updated, setting forth a variety of objectives and activities to achieve those objectives. In general the 1975 agreement calls for the Administration on Aging, and DOT's Urban Mass Transportation Administration and Federal Highway Administration to work closely in the implementation of transportation projects supported with funds provided through these agencies. For example, the agreement specifically calls for the issuance of joint technical assistance memoranda to federal regional office personnel, state and area agencies on aging, state departments of transportation or highways, explaining the guidelines and procedures to be followed for effective implementation of federally-supported transportation projects, the holding of joint workshops dealing with transportation for the elderly, and cooperation in research and demonstration efforts aimed at the improvement of transportation services for the elderly.

I am submitting a copy of the agreement for the record.

I am pleased to report that, for the most part, the objectives of the 1975 agreement have been achieved, and we are now in the process of upgrading that agreement. In general,

the new agreement will seek to (1) improve coordination among federal agencies as a means of improving transportation for elderly and handicapped persons; (2) increase the provision of technical assistance by federal agencies to state and local agencies responsible for transportation for elderly and handicapped persons; and (3) improve older and handicapped persons' access to transportation service which is more responsive to their needs.

That concludes my prepared statement. I will be happy to answer any questions that the Commission may have.

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U. S. Department of Transportation news:



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REMARKS PREPARED FOR DELIVERY BY DEPUTY SECRETARY OF TRANSPORTATION ALAN A. BUTCHMAN TO THE TRANSPORTATION ASSOCIATION OF AMERICA'S, NATIONAL TRANSPORTATION INSTITUTE NEW YORK CITY, MARCH 1, 1978.

Last weekend's tragic rail accidents demonstrate how far we still have to go to bring the nation's railroads up to acceptable safety and operating standards. I don't know of any practical alternative to the movement of chemicals and other hazardous materials by rail, but I know that the job can -- and must -- be done under more secure circumstances. As Secretary Adams said Monday, we are going to tighten up inspection procedures, put more inspectors to work and make rail safety a top priority concern. This is a very serious problem. We simply cannot tolerate 7,000 or 8,000 derailments a year. The threat to life and property is too great.

We feel that our containment regulations for the transportation of hazardous materials by railroad tank cars are adequate. Tighter hazardous materials containment regulations for tank cars would not be economically feasible. We must concentrate on rail car safety and upgrading the railroad beds. We also must devote more attention to providing communities the capability to respond to emergency situations should a hazardous materials incident occur.

New regulations on tank car safety (HM 144) give the industry until November, 1981 to rebuild or "retrofit" tank cars with the required steel shields ("crash shields") at each end, special couplers to prevent punctures and thermal coating to prevent overheating. The reason for the long lead time is a lack of industrial capacity to do the work. The cost of retrofitting the some 170,000 tank cars will be about 100 million dollars.

Only about 2800 cars are owned by railroads. The rest are owned by chemical firms, the oil industry and others. The Federal Railroad Administration can lighten the load of the immediate cost of this project by providing federal loan guarantees for financing. The guarantees are available to all tank car owners, not just railroads.

Concerning emergency planning, our Materials Transportation Bureau has just completed a training course designed to assist local communities in coordinating the efforts of police, fire and other emergency services personnel in responding to emergency situations. This course will be available in May.

To turn now to the theme of this Institute, I think it is readily understood that a unified transportation system has long been a state of mind but it has yet to become the state of the art. There is much to be done to make transportation in America a system in the true sense of the word.

That objective is the underlying thrust of this Administration's national transportation policy. Mort Downey, our Assistant Secretary for Budget, outlined our organizational plans and the logic of a combined transportation account at your morning session. I don't think we will ever get transportation to function as a system until we get away from the practice of planning by modes, funding by modes and -- in effect -- encouraging the modes to compete for Federal assistance.

Frankly, the American people have trouble believing there's an energy crisis as long as gasoline flows easily from the pumps. But most of you in this room know from your day-to-day experience what increased fuel costs have done to business -- and it doesn't take a crystal ball to see what would happen if someone in the Mideast turned off the tap.

It's a fact that nearly five years after the embargo we are more dependent on imported oil than we were then. As a nation that runs on petroleum, we are at the mercy of foreign oil producers and that situation carries with it serious crisis implications.

We must begin now to prepare the transportation systems of the future -- a future in which valuable petroleum must be shared with those who can use no other raw materials, such as the producers of plastics, polyesters and fertilizers. We must prepare the country for the 1980's and beyond, to see that our economy is not damaged by what is coming. And that essentially means using less fuel for non-essential purposes, and in inefficient ways, so that there will be more for the efficient users and for the kinds of vital transportation services we need.

Energy can be a unifying, not a divisive force in transportation policy. The necessity to conserve fuel gives us a common cause -- a mutual interest in integrating the modes, rooting out inefficiencies, making better use of capacity and eliminating unneeded facilities. Doing all of these things requires a major shift in our transportation thinking, but it doesn't mean less transportation or that our mobility will be the poorer for it.

Living by the conservation ethic means:

- (1) Setting tough new fuel economy standards, for new cars and light trucks -- and sticking to them.
- (2) Proposing surface transportation legislation that will make it easier for cities to develop transit systems -- giving more Americans alternatives to the automobile.

- (3) Enforcing "55," the national speed limit -- now that miles per gallon are of greater concern than miles per hour.
- (4) Beefing up our ability to move coal to factories, utilities and businesses -- so that we can shift over wherever possible to the energy resource we have in abundance.

We have to do these things and more; we have to get our act together and reduce fuel consumption or sometime between 1980 and 1990 our economy and our lifestyle are going to suffer.

REGULATORY REFORM

Another thing we have to do -- and the second policy thrust I want to stress today -- is the need to get rid of old-fashioned regulatory barriers, whose original meanings have been lost in the tides of time and changing circumstances.

We have to recognize, first, that the era of building huge new transportation systems is over. We will finish the gaps in the Interstate. We will support new facilities where they make economic sense, serve a clear-cut need or assist energy conservation.

But we cannot continue building new systems, one over the other. We have excellent highway, waterway and airway systems; we have a nationwide rail network, overbuilt in some areas and in need of rebuilding in others, but basically an effective and exceedingly valuable national asset.

What we must do now is take these systems and improve them -- modernize them so that they work better, and integrate them so that they work well together.

The second thing to recognize is that the era of classic regulation of the marketplace is also behind us.

I think this is the year we're going to see an aviation regulatory reform bill passed by Congress. What we're trying to do there is take the 40-year-old regulatory statutes, update them so that they reflect the industry as it is today, and arrive at a more logical and simpler system.

We are also looking at the trucking industry to see whether the regulatory protections developed during the Depression make sense for an industry that now carries the majority of the nation's goods. What we are talking about is not deregulation or a return to chaos. We are looking at yesterday's regulations in the context of today.

Tight regulation of the railroad industry might have made sense when the railroads were a monopoly and used their monopoly power to the fullest. But the severe restraint of monopoly makes little sense in a world where the railroads are more than hard-pressed by barge and truck competition. I think it is important that all of us in transportation keep in mind that the shipper is concerned primarily with three things: cost, reliability, and safety. He does not especially care how his goods travel, just as long as they get where they are supposed to go and arrive intact.

Removing the barriers that now exist to intermodal transportation companies may be the key to solving both the energy problem and the better use of a more mature system. The original barrier was placed in the Panama Canal Act of 1912 to protect the trade of the new canal, primarily to prevent the railroads from acquiring the intercoastal shipping companies and thereby extending the monopoly powers they then enjoyed. But since the canal now carries only seven percent of our domestic trade and the railroads carry less than 40 percent of the goods which are shipped, this protection must be re-examined.

Actually, the prohibition against railroads owning ships is not absolute. In fact, a study of the statutes dealing with intermodal ownership indicates that there is no absolute statutory bar to a common carrier of one mode owning a common carrier in a different mode. Instead, there is a patchwork of statutory language that has been interpreted by the regulatory agencies to make the barrier absolute in some cases. We should start by changing this within the regulatory agencies, but be prepared to seek legislative changes if necessary.

It seems clear that if it is decided as a matter of transportation policy to permit intermodal ownership, Congress will have to pass clarifying legislation and lay down some precise guidelines as to what type of ownership would meet the test of convenience and necessity. Further, any step to open up the ownership of common carriers would be so controversial that it would require the public forum of Congressional hearings and floor debate to make sure that the pros and cons of such a radical change were fully discussed. I believe we should start this process so I toss it out to you for your consideration. There are potential benefits -- greater operating efficiency and better use of fuel, among them -- and there are possible pitfalls.

It could renew transportation monopolies. A shipper in a small community could find himself dealing with a monster transportation company that moved all the freight coming in or going out of town. This could lead to an increase in economic regulation to control these new transportation giants; clearly this would not be much progress so we would need to consider easier entry into transportation and greater rate flexibility so the threat of competition could keep the system flexible.

There are now a number of large railroad companies which have trucking subsidiaries under a grandfather clause in the Motor Carrier Act, and this is working. Maybe we should see if some motor carriers might want to reverse that process and own some cross-country rail connections to reduce expensive long hauls.

Another possible problem is that giant transportation companies might not generate the efficiencies we are looking for. They could simply be too big to manage an integrated system or the traditional rivalries between the modes could be such that there would be a "red team/green team" mind set that continued inefficient competition under the same corporate umbrella. I have the impression that railroad owned trucking companies are not as closely linked with rail operations as they might be, and that the rail and truck operations tend to function as separate entities. Maybe it would work differently if the truck company ran the operation and maybe we should give it a try.

The clear advantages to intermodal ownership are greater efficiency and better use of fuel. It would allow the railroad to do what it does best -- the long haul -- while the trucks could handle the regional distribution on the shorter routes where they are more fuel efficient than the train. Presumably these efficiencies would be reflected in lower costs to the shipper. Or the shipper could benefit from having a variety of services available at differing costs. It would certainly encourage the growth of piggyback traffic, which despite its remarkable 12 percent increase in 1977, still has much room for growth. The energy crunch makes piggyback traffic an ever more important element of our transportation system.

Transportation companies might be able to better channel capital to modes that need it and a diversified transportation company would be in a better position to withstand cyclical swings in the economy. In this regard, I do not believe the theory that cash rich railroads would simply take over the transportation world. There are not that many railroads with that kind of cash. In any event, if railroads are to diversify, I would far rather see them stay in transportation than in non-transportation ventures.

I suggest that what remains to be discussed now is whether the perceived advantages would actually happen in the real world, and if they did, would the benefits of intermodal ownership outweigh the potential threat of monopoly. I believe it's clear from my remarks that I view the proposal with a sympathetic eye, but a great deal of careful thinking and discussion must be done before we would be ready to go to Congress with a specific recommendation.

INTEGRATED TRANSPORTATION SYSTEM

The third and final theme I want to touch on today is our commitment to the strengthening of transportation in America from the collection of independent modes we have today to the total system that you want and I want and that I believe the people want.

We've started that process in the highway/transit proposal President Carter sent to Congress a few weeks ago. Our goal is to eventually merge the Urban Mass Transit and Federal Highway Administrations into a single surface transportation administration, unified in purpose and funded through a combined transportation account.

There are tremendous opportunities before us to make our transportation system more rational, cohesive and increasingly responsive to social and energy needs. We will realize those opportunities only by working hard, working intelligently, and working together.

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REMARKS PREPARED FOR DELIVERY BY DEPUTY SECRETARY OF TRANSPORTATION
ALAN A. BUTCHMAN BEFORE THE AERO CLUB, APRIL 4, 1978.

It is a pleasure to be here to talk with such a distinguished group. Today, I want to talk about two timely issues -- the status of air carrier regulatory reform and international air transportation policy.

AIR CARRIER REGULATORY REFORM

On March 7, when Secretary Adams appeared before the House Public Works aviation subcommittee, the bill under consideration -- the Air Service Improvement Act of 1978 -- had just been introduced by Chairmen Johnson and Anderson and Congressmen Mineta and Levitas. It had all the earmarks of being a good bill -- and Brock said as much. He took with him a few suggestions -- more Congressional direction to the CAB, for example, in automatic entry determinations and clarification of the Board's authority in liberalizing charter rules.

I can only say that the recent events in the House mark-up of the Anderson bill leave us with a sense of disappointment. There is no question that there is need for aviation reform legislation, and I firmly believe that we will have a bill this year. The only question is whether the bill will come sooner or later.

Delay is not in your best interest. The tremendous reaction to the recent announcements of low air fares is an indication of the consumer's readiness for change. The airline industry is ready, for nothing can hurt the industry more than the continuing legislative uncertainty. Without the enactment of this legislation you will have difficulty with financing and trying to plan your corporate future. The next decade will require an immense investment effort, and the current reform issue has to be settled to provide the proper foundation for that effort.

I am fearful that, if we wait much longer for Congressional action, we will run into the end of the Congressional session. This could mean that we will have to accept a bill with many rough edges, which no one wants. Let me also add that the longer we wait, the less time we have for other vital aviation issues. We have to get the regulatory bill finished before we can move on to the noise financing program. A stall at this time -- and I don't consider the recent events as anything more than a stall -- will not kill the reform bill; there is too much momentum. But delay just makes it all the more difficult to pass good reform and noise legislation.

A great number of people have spoken to this group, including the Secretary, on the need for reform, and therefore I will make my remarks brief.

In the past, our regulatory system has resulted in air fares that are too high and an absence of new entry. It is simply unacceptable that the industry has grown more than a hundred fold since its beginning and has produced no new trunk entry. It is also unacceptable that individuals flying on intrastate carriers paid about one-half of what others paid for comparable travel on CAB carriers. At the same time, contrary to what many of the opponents of reform have alleged, this regulation has not protected service to smaller communities. Under the existing system some 180 communities have lost certificated air service in the last 15 years. I might add that both the House and Senate bills propose ample guarantees of service to our small communities, something that is not done under our present law. These bills will also allow commuters to take their rightful place in the subsidy system.

The arguments that have been raised against the lessening of regulation are neither new nor original. There is ample evidence that chaos will not result from liberalized regulation. Regulatory reform will not mean that the little carriers will be gobbled up by the larger carriers. In this industry, bigger is not synonymous with better. We have both large and small carriers who are healthy and strong competitors.

These intrastate carriers are fairly large now, but they started small and grew through competition. The reform movement has been growing recently, with two more carriers -- Braniff and Western -- joining those in favor of less regulation, and the movement also includes many of the smaller carriers.

I believe this bill will create more jobs for the industry, not less. Enactment of the legislation will ensure the continuance of lower fares and more people will be flying. We are already seeing this as a result of today's lower fares. Current industry figures show that travel is up 10 percent or more, and increased travel means more jobs.

Finally, with the issue of safety, there is no question in my mind that we can maintain our current level of safety with the coming of aviation reform. The FAA has always been able to accomplish its mission in the face of change, and it will continue to do so under the new regulatory system. None of these bills removes any requirements that new entrants be fit and financially responsible.

Those are the old arguments against reform. Recently we've had a somewhat new one: Why do you need legislation when you have Chairman Kahn at the CAB? After all, when was the last time the CAB turned down a proposed rate decrease?

It is true that we've recently had a lot of activity at the CAB. We have had super saver fares and no-frills fares and Freddy Laker. If you read newspaper travel sections, I am sure you have seen a half dozen ads for discount fares of up to 30-50 percent. And it is even possible to use these discounts. We have indeed seen a recent mini-revolution in air fares that are meaningful and useable.

But what happens after this Chairman leaves? Kahnsian economics may not be with us forever. What happens after the threat of legislation is gone? Can the CAB really handle all the new cases in an expeditious fashion? Some cases are taking years to complete. How long will it take the Board to complete the Midway case, the Nevada low fare case, or the low-cost transcontinental fare investigation? The Board has dozens of major applications to consider and the existing system is just too cumbersome to do this efficiently, regardless of the quality of the Board membership. The answer is legislation.

This legislation must be meaningful. Our position has been very consistent as to what is required for meaningful reform. We have to have provisions in the bill that by-pass the existing cumbersome procedures. Procedural reform and deadlines are fine, but unless we reduce the number of issues going to the Board, deadlines may just mean a lot of quick and hastily conceived decisions that we do not agree with.

We should include a new policy statement that urges the Board to take a new and more pro-competitive direction; but policy statements, by their very nature, are vague and can be interpreted in any way the Board wishes. We need to shift the burden of proof, but that change will not by itself reduce the case load of the Board.

The only guarantees for real change are provisions that allow carriers to make decisions without going to the Board, such as the pricing zone provision, the dormant authority provision, and the automatic entry provision as it was written in the Anderson bill before it was gutted in the last mark-up session.

I think we all might find some fault with parts of the Anderson bill as it was marked up prior to the Levitas substitute, but it was a good compromise. That bill did not contain radical proposals, and I doubt that any objective person could call the prior mark-up bill a radical approach to reform. It represented a gradual but certain shift to a more competitive environment. It allowed for the necessary transition period.

At this point the only thing that the Levitas substitute accomplishes is to sunset all our hopes and efforts for real reform. That bill contains none of the basic reforms in pricing and entry that are contained in either the prior Anderson bill or the bill that was reported out by the Senate. The approach of the substitute bill is not acceptable, and it is not reform. I firmly believe, however, we will very shortly regain the momentum to meaningful regulatory reform, and we in the Department are willing to commit the necessary resources to accomplish that job.

INTERNATIONAL AVIATION POLICY

On the issue of our international negotiations, it might be appropriate to paraphrase Brutus: I come here today to praise our international aviation policy negotiators, not bury them. When Brock Adams suggested to the President that the Secretary of Transportation should have a larger role in international air policy, he made what he considered to be a constructive suggestion to combat what we perceive to be a weakness in the pursuit of U.S. international air policy.

That deficiency is the absence of a clear focal point for coordination and communication. The issue is crucial at the moment because we are involved in a number of difficult negotiations with other nations. The talks between the United States and Japan, as you know, have been recessed and the European community is resisting the new low-fare and innovative charter policies that U.S. airlines are proposing.

The problem has two parts: one, international aviation policy itself; and, two, its implementation. The policy, you will recall, did not come easily or quickly. But we have been successful in working with other agencies, with the Office of Management and Budget as coordinator, in developing a new United States policy for the conduct of international air transportation negotiations. All the agencies concerned have agreed on this policy. But to implement it we must have the same kind of coordination and effective leadership with one agency acting as spokesman.

The cornerstone of U.S. international aviation policy is our longstanding reliance on competitive market forces as the best means of providing convenient, efficient, affordable air transportation. The United States has stood almost alone in the world for the principle of competition in the international marketplace. It has worked well for U.S. airlines and there are cogent reasons to believe it will continue to work as long as our airlines enjoy superior management and excel in service.

But let it be clear that we do not seek competitive advantage. What we want, and believe is fair, is competitive equity. We do not believe that market capacity should be divided equally, according to some arbitrary standard, but we hold that each country's airlines should have an equal opportunity to compete for business. Market share is best determined by passenger choice.

Therefore, in carrying out international negotiations we strive for a competitive system serving these objectives:

- (1) Innovative pricing and fare flexibilities that meet the needs of different consumers.
- (2) More liberal charter rules.
- (3) Removal or reduction of capacity restrictions.
- (4) Elimination of discriminatory practices.
- (5) The presence of multiple U.S. airlines in international air markets.
- (6) Greater access to international markets through more non-stop service points and improved integration of domestic and international airline services.

Let me also make it clear that it has never been U.S. policy to seek these objectives at the expense of another nation or its airlines. We believe in reciprocity. Our strategy, however, is to trade competitive opportunities rather than restrictions, and to make concessions only in return for progress toward competitive objectives.

We continue to believe that protectionism is self-defeating -- that benefits flow from promoting, not shutting off, new avenues to lower cost air transportation.

As our objectives indicate, transportation concerns -- not foreign policy concerns -- must be dominant in our international negotiations if we are to be perceived as practicing what we preach. It is quite true, as Secretary Vance has pointed out, that some nations do not share our pro-competitive approach. They consider their airlines as instruments of foreign policy and therefore prefer to negotiate from that point. Nevertheless, we feel that the credibility of our commitment is challenged when foreign policy concerns dominate our negotiations.

There are several logical and very valid reasons why primary responsibility for international aviation policy should be centered in DOT.

- (1) As I have already mentioned, it is transportation issues -- service to passengers and shippers -- and not foreign policy issues that lie at the heart of the matter.
- (2) The Secretary of Transportation is the person Congress calls, the ministers of transport and foreign airline officials call, and the one official viewed by the international community as responsible for making or coordinating transportation policy in the United States. The Secretary bears the brunt of Congressional concerns and international complaints but lacks the authority to make the decisions.

(3) In many other countries, the Transportation Ministers hold primary responsibility for international air transportation matters. The present administrative arrangements in this country, consisting of an interagency group with no one knowing who the principal spokesman for U.S. international air policy really is, comprise an awkward situation and makes decisive action difficult.

The General Accounting Office last month reported a need for a more structured organizational approach to international aviation policy in the Executive branch. That report also concluded that the Secretary of Transportation should be the focal point for the coordination of international aviation matters, a conclusion the GAO reached after full consideration of the roles of the other agencies.

As I said earlier, Brock has discussed this matter with Secretary Vance and Chairman Kahn. He understands and appreciates their views. Personalities are not an issue and there is no feeling of displeasure or dissatisfaction with the people presently involved in the negotiating process -- only the strong feeling that the present arrangement, in which many agencies have an equal voice but no one exerts leadership, is not conducive to effective international negotiations.

The foreign policy role is undeniably important in reaching air agreements with other countries, just as the roles of Commerce, Justice and the CAB are important, and all can be accommodated -- but international air transportation policy needs clear and central management responsibility, which it does not have today. I believe that void should be filled by the Department of Transportation.

In closing, let me say that there are obvious connections between our objectives in the international area and aviation regulatory reform. Can we seek international competitive equity, and not seek it at home? Can we seek international pricing and fare flexibility, and deny the same to our own citizens? Can we honestly ask for multiple U.S. airlines in international markets, and deny that same kind of access to a segment of our domestic industry?

I do not think that other nations will take our international initiatives with the full seriousness they deserve until we act on our own domestic reform. We cannot have our cake and eat it too; either we are committed to a competitive market system or we are not. Our actions on the regulatory reform bill will demonstrate that commitment.

I am pleased to have been invited to spend this time with you, addressing issues of vital concern to all of us.

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REMARKS PREPARED FOR DELIVERY BY DEPUTY SECRETARY ALAN BUTCHMAN TO THE INTERNATIONAL AIR TRANSPORTATION CONFERENCE, BOSTON, MASSACHUSETTS, MAY 3, 1978

I am pleased to be here tonight, in this distinguished company and among so many people dedicated to the growth and safety of air transportation.

The proceedings of this conference make two things very apparent.

1. In its 75th year, aviation is a thriving, growing industry -- on the leading, not the trailing edge of new technologies; and
2. The international aspects of air transportation loom larger and promise to become increasingly important to aviation's future.

For my part in your 1978 International Air Transportation Conference, I will leave the technologies of microwave landing systems, wind shear prevention, wake vortex systems and the other marvels of the technician's art in your very capable hands. I want to focus instead on several matters of policy that must be resolved if we are to put those technologies to work, dealing with today's problems and meeting tomorrow's needs in a world made continuously smaller and more intimate through aviation.

COMPETITION

There is something highly significant happening in the aircraft manufacturing, electronic and air carrier industries: they are becoming more competitive.

We have just concluded a long and spirited competition between the U.S. developed time reference scanning beam microwave landing system and the British doppler system. As you know, the 60 ICAO countries meeting in Montreal last month endorsed the U.S. system as the world's standard.

Eastern's recent \$775 million order for 23 European A-300 Airbus aircraft marked the first time in nearly 20 years that a foreign-built airplane has been

selected by a major U.S. airline. Largely on the strength of that purchase, a European consortium is now promoting the smaller B-10 version of the A-300 and two new transports -- the 130-seat JET-1 and the 160-seat JET-2 -- in the world airline market.

The competition for international air travelers is also intensifying. 1977, as you know, was a record year for air travel. The world's scheduled airlines carried 514 million passengers, up eight percent over 1976. Revenues increased 12 percent. This year promises to be even better. Since the Freddie Laker Skytrain and Super Apex discount fares were not introduced until September of last year, the substantial impact of those competitive fares will not be reflected fully until the 1978 traffic and profit figures are in.

The point is, competition is escalating, in the international as well as in the domestic markets, stimulating growth and raising load factors. We have always believed in competition in America, and we believe competition at the international levels will prove to be a healthy influence for aviation progress.

Competition is the keystone of the regulatory reform legislation now in Congress. It is the driving force in the U.S. airline industry's new prosperity. And it is central to our international air transportation philosophy.

REGULATORY REFORM

The Administration's decision last year to support airline regulatory reform and other programs to allow more competition in the marketplace is part of a broad policy to simplify government regulation and increase competition.

The full cost of government regulation of our economy is hard to pin-point, but it is high -- for business, for the taxpayer and ultimately for the consumer. A recent study for the Congressional Joint Economic Committee, estimated the cost to be in the billions. We want to reduce the cost by eliminating regulatory restraints where they no longer serve a useful purpose. President Carter has called passage of meaningful aviation regulatory reform one of the most important anti-inflation issues now before Congress. The Senate acted last month to support reform by an overwhelming 83 to nine vote.

The issue is now in the House where, during a pre-Easter recess mark-up session, the Public Works aviation subcommittee voted a substitute bill which -- in our judgement -- would not be good legislation. As it now stands in the House, the compromise bill contains few meaningful provisions.

In other words, it's a reform bill in name only. And while it makes almost no provisions for phasing out regulatory controls by permitting increased competition in the industry, the bill as now written passes a death sentence on the CAB, calling for its demise in five years -- which would leave the airlines, presumably, suddenly and totally unregulated.

I don't think there is any way Congress is going to let that happen. In fact, I don't think the reform movement can be denied. There is too much momentum, too much logic and too much need for constructive change. The airlines, in fact, have tasted the fruits of competition and most of them like it.

U.S. AIRLINE INDUSTRY -- RETURN TO PROSPERITY

Under the less-restrictive regulatory policies of the present Civil Aeronautics Board, U.S. carriers chalked up a record year in 1977. The airlines carried 240 million passengers, an eight percent growth over 1976, and ended the year with an estimated \$740 million in earnings. The 11 U.S. trunk carriers alone boosted their 1976 profits by 82 percent, to \$584 million.

Industry executives attribute much of the growth in traffic, and profits, to the wave of "supersaver" and other discount fares which induced travel and improved load factors. The load factor for domestic flights in March reached 61 percent, compared to 55 percent a year earlier.

In other words, the carriers have made the pleasant discovery that competition can be good for business. Promotional fares have filled a lot of seats that otherwise would fly empty. The airlines have found that you can cut fares and still operate at a profit. I think it's also plain to see that the pressure for regulatory reform has had a decided effect both on the CAB's ratemaking practices and the airlines' fare policies. As the carriers have experimented with fare reductions of 40 and, in some cases, 50 percent, and found that the lower rates generate more revenue than they cost, the CAB proposed last month that such fare cuts -- up to 50 percent -- be permitted without prior agency approval. traffic projections. In the '60's the airlines over-invested in new equipment, vastly increasing capacity but doing little to stimulate new traffic. Today's better profits are largely the result of the industry's success in structuring discount fares to make better use of existing capacity.

Moreover, the potential for further growth appears excellent. Bill Seawell of Pan Am noted recently that more money is now spent worldwide on tourism than for armaments. And the latest FAA aviation forecasts indicate that travel on U.S. airlines will increase by 80 percent in the next 10 years, to 420 million passengers by 1989. In other words, air travel may double in little more than

The phenomenal growth in air transportation is not limited to the U.S. trunk carriers alone. The local service and commuter industries had record years in 1977. As I have already noted, it was also a banner year for international air travel. And the potential for growth is perhaps greater in the international area than in any other segment of the air transportation industry.

INTERNATIONAL AIR POLICY

It has not always been so.

We've traveled a hard and sometimes rocky road in international air transportation policy over the past eight years. The issue has been debated in three separate Presidential policy reviews, and the preferred direction of U.S. international policy has not always been clear or distinct.

The situation today is different. We have developed the framework for an international air policy, we have coordinated that policy throughout the Executive branch, and we now seek to join with the rest of the world to develop a workable, reasonable pattern for air travel in mature markets. We want a policy that is fair to the travelers and one that assures there will be a U.S. airline industry able to serve the market, able to grow to meet the demands of the market, and able to compete vigorously in that market under rules that are fair and reasonable for all the various interests involved.

One point fundamental to the development of current U.S. international air transportation policy is the recognition that both scheduled and charter services compete for the same basic market. We believe that this competition is healthy, and that if it is allowed to take place it will result in more efficient and lower cost air transportation. Fares and rates will find their own levels, based on competition in the market place, and these levels will allow efficient and well-managed airlines to be profitable and economically healthy.

To impose economic regulation on air transportation it's necessary to regulate both rates and capacity, or neither. A system that's half slave and half free can't be effectively regulated without creating economic inefficiencies which, in turn, require even more regulatory patchmaking. And trying to force this kind of regulation on a system that is inherently dynamic and competitive, results in a crazy-quilt pattern that serves nobody.

The United States' position is clear. We will not accept capacity regulation. We intend to work to minimize rate and fare regulation -- or at least to ensure that the marketplace is competitive enough to make sure that competition, and not government edict, keeps fares low and services efficient. Our objective is to provide the greatest possible benefit to travelers and shippers. Our bilateral agreements are and will be negotiated with that purpose in mind, and our intent is to focus on the major international air markets as the best means of demonstrating our commitment to that basic principle.

Over the years, the United States has stood almost alone in the world for the principle of competition in the international marketplace. We believe that a competitive policy has several benefits. First, from a governmental viewpoint, encouraging airlines to be both competitive and profitable is better than a policy of government subsidy. Subsidy is expensive for governments. However it may be rationalized, no government wants to pour endless capital into an enterprise which, properly managed and developed, could be self-supporting. The world airlines' projected financial needs through 1987 may total \$70 billion. All governments are hard-pressed to find enough resources to cover their expenses and none should have to allocate scarce economic resources to their airlines on so large a scale.

Second, a nation's interest in the prosperity and self-sufficiency of its airlines is better served by a policy of market expansion and growth than by a policy of protectionism.

Third, by offering more services to the public, the international air transport industry can stimulate traffic growth, generating new markets and producing increased revenue both for their airlines and for related industries such as tourism. We've seen it happen in the domestic market, both scheduled and charter, and the international potential is even greater.

Let there be no mistake. We cannot and do not seek competitive advantage. What we want, and believe is fair, is competitive equity. We do not believe that market capacity should be divided equally, according to some arbitrary standard, but we do hold that each country's airlines should have an equal opportunity to compete for business. Market share is best determined by passenger choice.

I might note, in this regard, that U.S. flag carriers do not dominate the international market. Our international airlines last year carried 19.5 million passengers, or less than four percent of the world total.

In our international negotiations today we are striving for a competitive system that serves these specific objectives:

1. Encourages innovative pricing and fare flexibility to meet the needs of different consumers;
2. Liberalizes charter rules;
3. Reduces or removes capacity restrictions;
4. Eliminates discriminatory or unfair competitive practices;
5. Permits multiple U.S. airlines in international air markets; and
6. Encourages greater access to international markets by permitting more non-stop service points and improves the integration of domestic and international airline services.

These objectives reflect our commitment to an expanding low-fare international aviation system based on competitive market forces. Let me emphasize here that it has never been U.S. policy to seek these objectives at the expense of another nation or its airlines. We believe in reciprocity. Our strategy, however, is to trade competitive opportunities rather than restrictions, and to make concessions only in return for progress toward competitive objectives and a fair marketplace. We continue to believe that protectionism is self-defeating — that benefits flow from promoting, not shutting off, new avenues to lower cost air transportation — that competition promotes operational proficiencies, performance and profits.

Before leaving this subject, let me just note that there are obvious connections between our objectives in the area of international policy and our support for aviation regulatory reform. We could not, in good conscience, plead for increased competition in international markets and at the same time reject the concept at home. We cannot seek international fare flexibilities and greater route freedoms, and deny domestic reforms that would permit the same benefits to U.S. citizens. The importance of consistency in our international and domestic aviation objectives

has been recognized by the Senate, and will prevail -- I am confident -- in the final reform legislation voted by the Congress.

NOISE REDUCTION AND NEW EQUIPMENT

Finally, I want to say just a few words about the airlines' need for new aircraft and the industry's prospects for financing those purchases.

Several factors are involved. One, present fleets -- particularly those of the biggest U.S. carriers -- are getting old. The average age of one airline's planes is 11 years -- and while aircraft of that vintage are safe and serviceable, they are not as fuel-efficient or as quiet as newer models.

A second factor is capacity. After years of surplus capacity, demand is now increasing and airlines contemplating new routes do not want to be late in placing orders.

A third factor is noise reduction. Current regulations require that the entire U.S. commercial air fleet be brought into compliance with revised noise standards by 1985. About 75 percent of the 2100 jet aircraft now in use do not meet the established standards. To assist the carriers in cutting jet engine noise we support a bill now before Congress that would provide a special supplementary funding mechanism for the replacement or retrofit of the non-complying aircraft. That bill would establish the means to help pay the costs of retrofit and replacement. At the same time the current taxes paid into the Airport/Airway trust fund would be reduced by the same amount, for a zero net effect on the cost to the air traveler and shipper. We would prefer a \$2 surcharge on all international departures, and permit foreign carriers to set up escrow accounts to be used for new aircraft procurements or retrofit expenditures.

While it might appear from the improved profit picture that the airlines are capable of financing their own equipment needs, it must be remembered that we are talking about a very large investment -- perhaps \$25 to \$40 billion domestically -- over the next 10 to 12 years. Airline analysts seriously doubt the industry's ability to generate the necessary financing internally.

The supplementary funding program we are recommending, together with regulatory reform, will help establish the new foundations of confidence needed by the airline industry to restore lender support, and by the manufacturers to spur aircraft development.

The result, we believe, will be more jobs in the aircraft industry, a strengthening of U.S. aerospace exports (which last year contributed \$9.2 billion to our balance of trade), and new airliners that will be quieter, cheaper to operate and up to 40 percent more fuel-efficient.

CONCLUSION

Air transportation has grown tremendously -- and is still a growth industry -- because it satisfies a universal need. We have the technologies to make air commerce even more popular and ever more successful -- by making flight more convenient, more affordable and safer. Competition between companies and between nations is producing better products and better air service. Our task is to see that institutional progress keeps pace with today's marketing and technical developments, so that international air transportation is not hindered from achieving the great destiny so clearly ahead.

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Remarks prepared for delivery by Deputy Secretary of Transportation Alan A. Butchman To the Aerospace Industries Assn., Williamsburg, Virginia, May 25, 1978.

I'm delighted to be here and take a part in your annual conference. I bring you greetings from Secretary Adams and his regrets that he cannot be here with you.

In his year-end statement last December, your president predicted that 1978 would be a pivotal year for the aerospace industry, because many of the issues that have been developing would come to a point of decision during the year.

Mr. Harr was absolutely correct, and since a number of those issues involve Department of Transportation programs or responsibilities, I want to use this time to address those issues that jointly concern us.

I have divided them, in my own thinking, along domestic and international policy lines.

DOMESTIC AVIATION ISSUES

1. Regulatory Reform
 - (a) Legislative Status

Turning first to the items of domestic policy, the most burning issue is regulatory reform. After long debate and many legislative twists and turns, one reform bill has been passed by the Senate and a companion bill cleared the House Public Works Committee last week.

President Carter urged regulatory reform of the airline industry in one of the first statements he made after taking office. The Department has long supported a more liberal policy of economic regulation, including automatic entry and flexible pricing provisions. We believe that while present CAB fare policies have given the industry greater rate freedom, we also believe that without new entry -- or the threat of entry -- we are not likely to see price competition or innovation for any length of time.

The Senate bill, approved last month by an overwhelming 83 to 9 vote, provides both entry and price competition. As President Carter noted in commenting on the Senate vote: "This bill guarantees that the trend toward lower fares, already begun by many carriers in anticipation of this amendment, will continue -- benefiting more passengers and putting an end to one form of government regulation of business."

The House bill is more restrictive. It would allow any already certificated airline to add one new domestic route in the first year, and would permit fare increases of up to five percent and decreases of as much as 50 percent without prior CAB approval. Yet the House bill would put the CAB out of business by 1983, and therefore comes closer to "deregulating" the industry than the Senate bill which is essentially a regulatory "reform" measure.

In any case, it is gratifying that in little more than a year the pendulum of legislative opinion has swung in favor of regulatory change. Each of the bills achieves some of the goals we feel essential, and Secretary Adams and I are confident that an acceptable compromise will be worked out in conference and that final legislation will be on the President's desk before the close of this session.

(b) Carrier/Manufacturer Relationships

I would note, before leaving this discussion of regulatory reform, that I am aware of the questions that have been raised concerning the effects fare competition might have on historic air carrier/aircraft manufacturer relationships. Elizabeth Bailey of the CAB explored this subject at a recent National Science Foundation seminar, and I have studied her thesis with interest.

As I'm sure you know, Ms. Bailey is suggesting that the development of new aircraft may be more difficult under a competitive -- that is, unregulated -- system, since she presumes that no group of carriers would have enough market share to place the large orders needed to launch new aircraft design efforts.

I understand the logic, but I do not believe that effect will be the result of deregulation. For one thing, Ms. Bailey has based much of her argument on the economics and events of the 1950's and '60's. It is true that airlines may once have bought new equipment for "prestige" purposes -- to keep up with the Jones' airline, so to speak -- but that was in the days when fuel costs were negligible and trunk losses were made good by Federal subsidies. No airline today would buy an operationally inefficient aircraft, even if a manufacturer were foolish enough to market one.

Secondly, Ms. Bailey wonders if any small group of carriers will take on the large-scale risk involved in the advance payments that accompany a new aircraft order, when the market -- as she suggests -- may be divided among 100 to 200 carriers.

I believe we need more competition in the airline business, because -- for one reason -- that business has grown tremendously in 50 years. I do not foresee a field of 100 to 200 carriers above the commuter airline category -- in the foreseeable future. There is nothing in either of the bills now in Congress to suggest that degree of market entry.

In fact, Fred Kahn, Chairman of the CAB, disputes the argument that deregulation would cause chaos in the market by inducing excessive competition. "Companies are not likely to rush headlong into markets already adequately served, impelled by some drive for self-destruction," he says. As he points out, the competition for

route authorizations has always been intense because government franchises carried with them certain exclusive rights to the territory and, therefore, afforded a high degree of economic protection. In a free entry situation, route certificates would have no value.

The issue, nevertheless, is an interesting one, and merits further study. But I believe the sum total of regulatory reform's significance for the aircraft industry will be a plus, not a minus, in that price competition will stimulate traffic -- as discount fares already are doing -- leading to increased airline profits and a greater demand for new aircraft. The changing nature of the market, including the growth of commuter carriers and the expanding role of the regional airlines, will almost certainly sharpen the demand for a family of aircraft of various sizes and performance capabilities. But the aerospace industry has already anticipated that need and is moving to meet it.

2. Noise Reduction

Let me move on now to the second major domestic issue concerning us -- noise reduction. Again, this should be a decision year.

Noise is a constraint to aviation growth that must be reckoned with, and for all that we have done -- and are doing -- to suppress it, divert it, or otherwise contain it at the airport, the real pay-off is in reducing aircraft noise at its source.

The industry, I'm pleased to say, has done a pretty good job. The newest wide-bodies are perceptibly quieter and the next generation of jets -- I'm assured -- will bring even greater improvements. The question before us is: how do we get those planes off the drawing boards and into the air?

A series of noise rules proposed and adopted over the last 10 years has lowered the allowable noise threshold to a point where all jet aircraft in the domestic fleet must meet fairly stringent noise limitations by 1985. About 75 percent of the current fleet cannot meet that 1985 standard.

The problem, as I'm sure everyone here knows, is money. The airlines would like to begin acquiring new generation aircraft, not only because many of their present planes are noisy but also because they are getting older and costlier to operate.

The public would welcome new planes, because they are quieter more fuel efficient and -- in many cases -- more comfortable.

You, the aircraft manufacturers want to build and sell the new-technology planes, both here and abroad.

The world market for new air carrier aircraft has been variously estimated at \$50 billion to \$80 billion. You know the figures better than I. Whatever the actual dollar size of the market, it is appreciably more than the airlines have invested previously in new equipment over their entire history.

To assist this situation, the Administration went on record last year in favor of a "noise bill" that would authorize a two percent ticket tax and waybill surcharge to help finance the retrofit of noisy aircraft or their replacement.

At present, this proposal -- like regulatory reform -- has taken two forms, one in the House and another in the Senate. Neither bill matches precisely what the Administration favors, but both provide a supplemental funding mechanism that would satisfy many of our goals. Both emphasize the advantages of replacement over retrofit.

The Senate bill, introduced by Senators Cannon and Pearson, proposes a \$20 billion loan guarantee program, to be secured -- in part -- by aviation trust fund reserves. We believe that the loan guarantee approach is an insufficient mechanism to provide the financial resources needed by the carriers to bring about a massive replacement program which would have numerous national benefits. In any event, we are committed to an assistance program and we will continue to work with Senate and House leaders to develop a bill that will produce meaningful noise relief.

INTERNATIONAL AVIATION ISSUES

1. International Aviation Policy

Our approach to international aviation agreements is the same as that which governs our domestic aviation policy. We believe that free market forces are more effective than laws or regulations in providing convenient, efficient, affordable air transportation.

The key words are free market forces. When international airline managements are allowed to price their product according to competitive market forces, some interesting things happen: fares come down -- traffic increases -- load factors go up and profits improve. In sum, capacity problems are best solved by competition, not regulation.

If there are any doubts that the process can work, look at the North Atlantic, where U.S. carriers went from a negative 1.1 percent return in 1970 to a positive 12.8 percent return on investment in 1977. Or consider what has happened in the U.S. domestic market since the widespread adoption of "supersaver," "chicken feed" and other discount fares. Compare those fares with the much higher costs of scheduled air transportation in Europe, where capacity limitations are in effect. In a relatively free market, demand catches up with capacity.

I note, too, that the European Travel Commission is predicting that this will be the biggest year in history for American travel to Europe. Our people will be travelling to the continent in record numbers. At the same time, 20 million Europeans will be visiting the United States. One of the great contributors to this travel surge is the bargain air fair and these new low fares have come about partly because of the persistence of Freddy Laker and partly because of our own insistence on price competition.

In this insistence on competition, we have, in all our international aviation negotiations, favored a liberal rather than a rigid legal framework, preferred private enterprise to government subsidies and shunned capacity regulation. We do not believe that market capacity should be divided equally, according to some arbitrary standard. We hold, rather, that each country's airlines should have an equal opportunity to compete for business.

The competitive system we seek in these international air agreements will serve these specific objectives:

1. Encourage innovative pricing and fare flexibility to meet the needs of different consumers;
2. Liberalize charter rules;
3. Reduce or remove capacity restrictions;
4. Eliminate discriminatory or unfair competitive practices;
5. Permit multiple U.S. airlines in international air markets; and
6. Encourage greater access to international markets by permitting more non-stop service points and improve the integration of domestic and international airline services.

In these respects, our international aviation policy is also consistent with the President's trade and tariffs policy. As you know, the U.S. Delegation at the General Agreement on Tariff and Trade (GATT) negotiations has recommended the elimination of all tariff barriers to aircraft trade; has requested the elimination of offset production requirements or licensing agreements; and requested that governments not intervene in airline equipment decisions. In other words, we believe in technology competition as well as price competition -- and we take that position because of our unqualified confidence in the superiority of the American aerospace industry.

2. Bilateral Agreements

In negotiating the bilateral agreement with the British last year -- the agreement that has become known as "Bermuda Two" -- our objective was to achieve an understanding that would maintain a competitive system. The British, on the other hand, wanted to move toward the more restrictive government-controlled agreements common elsewhere in the world.

There are some who contend that Bermuda Two was not a good agreement -- that it did not represent a "victory" for the United States. But, as Secretary Adams has said, we went to the negotiating table to write a treaty, not dictate one; to arrive at an agreement, not fight the Battle of Britain. The deliberations were long and arduous -- we never expected less -- and in the end we reached an acceptable compromise, fair to all concerned.

Bermuda Two is more than an exchange of route and landing rights. It sets the rules under which the airlines of the two nations will compete in providing international air services.

Before Bermuda Two was concluded, we had embarked on a six-months long negotiation of the bilateral agreement between the United States and the Netherlands. Frankly, in defining a new model agreement, we look to our pact with the Netherlands -- not Britain -- to set a new liberal pattern for bilaterals with other U.S. aviation partners. We both agreed that fares and rates should be based primarily on commercial considerations, and that intervention by governments should be limited to: (1) prevention of predatory or discriminatory practices, (2) protection of consumers from the abuse of monopoly power, and (3) protection of airlines from prices that are artificially low because of direct or indirect governmental subsidy or support.

In other negotiations, we have completed a new civil agreement with Romania, we are engaged in talks with Poland and France, and we will begin discussions later this month with West Germany. Our earlier talks with Japan have recessed until Fall.

The end products of these bilaterals -- and of our whole policy of competition -- are, as I noted, more travelers -- more passengers and more promising load factors that mean higher profits and all this, needless to say, means increased demand for new aircraft. We are, in our international aviation policy, serving not only our airlines but also the best interest of our important aircraft industry.

3. International Aircraft Competition

While we are urging more competition in our domestic air transportation system and advocating a greater reliance on competition internationally, we are finding competition thrust upon us in another area -- that of aircraft sales.

Eastern's recent \$778 million order for 23 European A-300 Airbus aircraft marked the first time in more than 15 years that a foreign-built airplane has been selected by a major U.S. airline. Largely on the strength of that purchase, a European consortium is now promoting the smaller B-10 version of the A-300 and two new transports -- the 130-seat JET-1 and the 160-seat JET-2 -- in the world airline market.

I realize this is a matter of concern to your industry, as it is to a government keenly interested in the positive impact U.S. aerospace sales have on our balance of trade, but the emergence of a strong foreign competitor may not be all bad. For example:

- About 30 percent of the A-300 is American-made. Yet over the life of the aircraft, that value increases to approximately 50 percent, because many of the spares are U.S. built.
- The drop in exports of commercial transports last year, from \$2.5 billion to \$1.8 billion, was offset by the increase in sales to U.S. carriers. Traditionally, foreign sales have followed domestic purchases by several years.
- Singapore Airlines is buying \$900 million in new equipment from Boeing.
- The major airframe manufacturers expect to deliver 270 aircraft worth \$4.7 billion this year, an increase of 89 planes and nearly \$2 billion. The industry has a \$10 billion backlog and new orders this year may reach 300.

4. Financing

In the financing area, which I know has also been a matter of concern, some foreign manufacturers have made extraordinary financing arrangements. However, the U.S. is not without its own resources in that kind of competition.

The Export-Import Bank has been a major instrument of marketing and financing for U.S. aircraft producers. In the past 10 years the Bank has supported aircraft sales with a total export value of \$15 billion. In response to the foreign challenge to lower interest, longer term financing, the Export-Import Bank will probably be

doubling its lending resources, from \$20 billion to \$40 billion, extending repayment schedules from 10 years to 12 years, and is prepared to offer fully competitive financing packages wherever U.S. manufacturers face head-to-head competition with foreign companies. That these new approaches are effective is evident in Singapore Airlines' announcement that it intends to seek 30 or 40 percent of its financing from the Ex-Im Bank.

CONCLUSION

I am pleased to have had this time with you. The major question that concerns you -- the maintenance of U.S. leadership in transport aircraft -- cannot be answered unequivocally by me this morning, or by anyone else at this Conference. But I have tried to set before you a tableau of Federal faith in your industry, Federal support for your economic and financing needs, and Federal confidence in American aerospace competence. I assure you, we will work to the utmost to help you retain the leadership your skills have earned and the world reputation your products have achieved. I do not expect you, or us, to fail.

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REMARKS PREPARED FOR DELIVERY BY DEPUTY SECRETARY OF TRANSPORTATION
ALAN A. BUTCHMAN TO THE TRANSPORTATION ASSOCIATION OF AMERICA,
WASHINGTON, D.C., JUNE 28, 1978

INTRODUCTION

I want to thank TAA for scheduling this seminar on government regulations and their implications. The subject has gotten a lot of press recently, and while the public probably still has only a hazy notion of what government regulations are, what functions they serve and how they are created, the industries affected by these regulations are keenly interested in their form and direction and, by no means least, in their cost.

Therefore, I welcome this opportunity to examine the subject in some detail and, I trust, analytically and dispassionately. I hope that this seminar serves to further illuminate a subject that for too many years has had more heat than light.

As the chairman of the Department's Regulations Council, I have become intimately acquainted with the regulatory development and review process. You might say I have learned more about government regulation than anyone presumably would want to know. But, like most educational experiences, it's been rewarding. I have found that regulations are like taxes -- almost nobody likes them but we couldn't get along without them. And, like taxes, regulations periodically need clarification, simplification and revision.

I also welcome this opportunity to discuss government regulations without having to be defensive about them. The point is, we need regulation in our society, to protect the public against safety hazards and economic abuses, to safeguard the environment, conserve energy, and promote the public health. From time to time we will need new regulation in these areas. But we should be at least as willing to discard out-dated and unneeded regulations as we are to adopt new ones. And although they might be reluctant to admit it, the transportation industries frequently benefit from regulatory controls. We have, for example, had a difficult time persuading the airlines they will be better off by ralinquishing some of the economic regulation that has cloaked their industry for 40 years. We clearly don't need all the regulation that now exists, which is why we are working at DOT to divest the transportation industry of unnecessary, obsolete, and invalid regulations, and reduce the overall regulatory burden wherever possible. I suggest, too, that the trend is away from economic regulation and toward more and better functional regulation -- to achieve social and consumer goals not otherwise attainable through economic incentives.

We are also sensitive to the cost of regulation, and its impact on industry and the consumer. We recognize further, that industry and the rest of the public have valuable expertise and valid concerns that we want to include in the rulemaking process. We are therefore making a deliberate and concerted effort to develop regulations in an orderly and timely fashion, with the full participation of the public.

To set the stage for the modal workshops to follow this afternoon, I want to talk, first, about what we've done to improve government regulations; secondly, what we're doing in terms of providing an agenda and a public "check list"; and -- third -- how the transportation industry and the public can become more fully involved in the regulatory process.

I. WHAT WE'VE DONE

The improvement of government regulations is a prime goal of the Carter Administration. The word from the White House is direct and unmistakable; there should be no more regulations than absolutely necessary, and those that are issued should be simpler, more comprehensible and less burdensome.

Regulations will not be issued unless the public has been consulted and involved in their formation. Once issued, a regulation should not have the consistency of concrete or the durability of marble, but should be periodically reviewed and revised, as needed, or junked if it has outlived its purpose. Unfortunately, that direction is easier to agree with than to accomplish, as we have learned in our year and a half struggle to abolish the archaic parts of airline economic regulations and reform the balance.

We have, however, scored some successes within the Department, which, while they have not attained the notoriety of air carrier reform, reflect small victories of sorts for the forces of regulation improvement. For example:

-- The publication recently of NHTSA's five year plan for motor vehicle safety and fuel economy rulemaking, affords the auto industry ample time to prepare for the rulemaking and participate in it. Previously, the industry complained, with some justification, that they never knew what the government might have up its sleeve. In addition to identifying those areas where Federal safety and fuel economy standards would be focused over the next five years, NHTSA Administrator Claybrook also announced the closing out of 13 lesser rulemaking proposals in order to concentrate on the most important programs and those offering the greatest improvements. So we have taken steps to increase the opportunity for public participation, and to do so at the earliest stages of the rulemaking process.

-- Progress also has been made in simplifying regulations now on the books. The FAA recently issued a notice of proposed rulemaking that would reduce the content of its flight time limitation regulations by 65 percent. The FHWA has taken similar action through its Regulations Reduction Task Force.

-- We're working to cut down on reporting requirements. The Coast Guard and FAA have taken positive actions in this area, and the Highway Administration recently pruned away about 40 percent of the paperwork involved in processing a Federal grant.

-- There has been a Department-wide effort to relieve the burdens of regulation compliance. The FAA, FRA and UMTA have taken specific steps to trim the paperwork burden. The Transit Administration, for example, by changing its procedures for processing operating assistance grants, has reduced the paper flow by as much as 75 percent, and speeded payments as a result.

-- We have also made certain organizational changes, intensified the review process and initiated a training course in effective rule-writing; all to the end of bringing regulations out of the dark ages and into the light of better public understanding and easier compliance.

II. WHAT WE'RE DOING

Having all of this behind us, we are not relaxing our efforts. The Department has established a good reputation for regulation improvement. We have assisted the Office of Management and Budget and other Federal agencies, and we intend to remain in the forefront of activity in this area.

We are committed not only to meeting the requirements of Executive Order 12044, but exceeding them. That order, concerned with "Improving Government Regulations," was issued in final form last March and calls on each Federal agency to review its rulemaking process and revise it as needed. We had issued our own statement of policies and procedures for the simplification analysis and review of regulations two months earlier. Only moderate revisions are necessary to comply with the Executive Order.

We are also publishing, in the Federal Register, a semi-annual regulations agenda -- listing not only the Department's "significant" regulations as stipulated by the executive order, but all of them. Our purpose is to provide a public check list of all the regulatory documents the Department expects to publish in the next year --or beyond that, if anticipated. To make public examination and response easier, we are identifying the 70-or-so "significant" regulations, by agency, out of the several hundred being proposed.

We are also exercising greater control over the initiation and review of Department regulations. Since the criteria determining whether or not a proposed regulation is significant tends to be subjective and many vary with the agencies and initiating offices, the Secretary and I have responsibility for the final decision on the proper classification for a pending regulation.

As chairman of the Regulations Council, I also take an active part in the whole regulatory review process -- including the consideration of regulations and related matters that overlap offices or agencies.

Let me emphasize, at this point, that we do not take the launching of a new regulation lightly. Unlike the image some may have of government officials searching the nooks and crannies of private enterprise for a place to plant a new rule, we are not 'regulation-happy.' Writing a good regulation is hard work. Defending it is an arduous task, because we have to convince some tough critics among us that a rule is needed. We are also mindful of the fact that a regulation, once enacted, must be enforced.

I won't go into all of the procedures that must be followed before any regulatory document of substantive significance can be issued, but let me give you an idea of some of the tests it has to pass.

First, the head of the initiating office must be satisfied that the regulation is needed, that its effects have been considered, and that public comment has been taken into account and an adequate response prepared.

Second, it must also be well established that the least burdensome of all the acceptable alternatives has been chosen.

Third, that an estimate has been made of the new reporting obligations or record-keeping requirements necessary for compliance; and

Fourth, that the regulation is written in plain English and understandable to those who must comply with it.

Even if the head of the initiating office is satisfied that these requirements have been met, all Secretarial officers with an interest in a regulatory document are consulted, as well as the General Counsel's office and -- if necessary -- the Regulations Council.

III. PUBLIC INVOLVEMENT

The public, however, gets the last word, because all proposed rules, except those clearly of an emergency nature, are subjected to public comment. But we would like to broaden public participation in the regulation process. We want the public to get in the first word as well as the last; we are particularly interested in the public's view, for example, as to whether proposed criteria are reasonable and effective.

Let me conclude my part in this afternoon session, therefore, by outlining the public role in the rulemaking cycle and suggest ways to improve the effectiveness of that participation.

Under Executive Order 12044, a draft regulatory analysis is required for all proposed regulations that will have an economic impact of \$100 million or more, or will result in a major increase in costs or prices for individual industries. We are going beyond the terms of the executive order and requiring such an analysis when a proposed regulation will have a major effect on the general economy in terms of costs, consumer prices or production.

We are taking this position because we recognize the possible ramifications of regulatory requirements. The actual dollar cost of government regulation has been extensively debated and variously estimated. A report by the Center for the Study Of American Business put the 1976 cost at \$3.2 billion, and the cost of compliance at \$60 billion. The report made no attempt, so far as I can determine, to balance offsetting benefits against those costs. As I noted earlier, we are quick to criticize the application of regulation, but less quick in putting a value on its qualitative benefits.

A NHTSA study of automotive safety and fuel economy regulations, for example, concludes that about 200,000 lives have been saved on the nation's highways since enactment of the 1966 safety act. How do we put a dollar value on that?

The fuel economy standards set by law and by government regulation will, by 1985, save billions of barrels of gasoline. What is the value of those standards in terms of reducing our dependence on foreign oil and the cost of massive imports? One motorcar manufacturer has estimated the cost of meeting U.S. fuel economy standards at \$15 billion between now and 1985. But we spent \$45 billion last year alone for foreign oil, 32 percent of which is consumed by automobiles.

Moreover, the study suggests that the costs of compliance have, in some cases, been exaggerated. The average price, to the consumer, of all the safety equipment required on a 1978 model automobile is about \$250, roughly half the amount claimed by some automakers and less than five percent of the total vehicle price. The cost of NHTSA standard 114, to afford carowners greater theft protection, is estimated at \$2 to \$3 per vehicle. But automobile thefts cost our society \$1.8 billion to \$2.9 billion a year.

The study further indicates that the costs of future safety, consumer and fuel economy rules will be about \$285 for passenger cars and \$60 for light trucks and vans. These costs, of course, could go somewhat higher because of inflationary factors. But consumers should also realize a net lifetime vehicle savings of more than \$600 for a model year 1984 vehicle compared to a 1978 car.

The NHTSA report, I might add, is preliminary and Joan Claybrook has said she will welcome comments from consumer groups and from the industry on the report and its findings.

My point is, we are concerned over the economic costs and the effect on industry -- which is why we took a closer look at the proposed light truck standards, for example; but we are also concerned for the public welfare, and that is our primary motivation.

It is also our policy to revise or revoke regulations that do not achieve or no longer serve their intended purpose, and we want the public to share in those procedures.

In trying to determine what regulations should be reviewed we go by three criteria:

- (1) Those that over the years or months have required the most explanation or have otherwise been difficult for the public to comprehend.
- (2) Those that have received the most comments and complaints.
- (3) Those for which the most exemptions have been requested.

CONCLUSION

As I said earlier, we have published our first regulation agenda. It includes 72 significant rules that will be coming up during this next year. The agenda gives a capsule summary of the proposed rule, why it is considered important, and its chronology. A Department official is listed by name and telephone number, so further information can be easily obtained.

We want to make government regulations simpler and as little of a burden as possible. These are our first objectives. Our second is to attract greater public and industry participation in rulemaking; at the inception of a rule, during its development and in subsequent review and revision processes. Our primary goals, we believe, will be better served when our secondary goal is achieved. This seminar, I am confident, will move us toward both of those objectives.