



DEPARTMENT OF
TRANSPORTATION

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FEDERAL RAILROAD ADMINISTRATION

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Nationalization of the nation's railroads offers no cure for the industry's problems, Federal Railroad Administrator John W. Ingram today told the members of the Central Western Shippers Advisory Board in Omaha.

"Those who look longingly at other countries' railroads -- the nationalized ones -- as paragons of efficiency and profit spend too much of their time gazing at the glamorized versions of foreign travel in the travel sections of their newspapers. They are not taking a hard look at the profit and loss pictures of these railroads. These are not so glamorous.

"We in the Department of Transportation have looked long at these figures over a period of time and we see nothing there that makes us want to take over the nation's railroads. In fact, we see just the opposite, and it makes us renew our efforts to do all we can to make sure that such a step never comes about."

Legislation introduced by the Nixon Administration in November, Ingram said, "will help create an atmosphere in which the railroads can revive and start back on the road to general recovery."

The bills referred to are the Transportation Regulatory Act of 1971 and the Transportation Assistance Act of 1971.

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DEPARTMENT OF TRANSPORTATION

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WASHINGTON, D. C. 20590

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SPEECH PREPARED FOR DELIVERY BY JOHN W. INGRAM, FEDERAL RAILROAD ADMINISTRATOR, BEFORE CENTRAL WESTERN SHIPPERS ADVISORY BOARD, HILTON HOTEL, OMAHA, NEBRASKA, JANUARY 27, 1972

It's nice to be back in America's heartland once again. You know, Omaha means different things to different people. Henry Fonda called it a "nice place to be from." Some refer to it as "Big Red" country; others as Bob Devaney's backyard. I have even heard it called -- by the more poetic residents -- the "diamond stickpin in the bosom of the West." But for one who lived in Chicago for many years and followed the Bears, it means the hometown of Gale Sayers -- and that says a lot for the city.

But I didn't come here to talk about football. Railroading is my game and this is an area of the country where railroads are very important. So, I am delighted to be here to discuss with you a subject that vitally concerns and affects us all and tell you about some of the programs we have going at FRA.

I noticed from the program that this is the 104th regular meeting of the Central Western Shippers' Advisory Board. Now that's a lot of meetings -- and I would guess that discussion of the car service problem has occupied a central place in every one of those meetings. An outsider might think, perhaps, that any problem which cannot be solved during 104 meetings is either a mighty interesting topic of conversation or an insoluble problem. But, then those outside a problem often think and say a lot of things that aren't particularly relevant or enlightening.

For example, some people think that all the problems of the railroad industry could be swept away by nationalizing the railroads.

You might have read the article in the Wall Street Journal during the first week in January discussing what they called the railroads almost inevitable decline toward nationalization. It was an interesting article written by a responsible transportation reporter. My only problem with the article is that I didn't agree with it. It pointed out most of the problems, but it misleadingly insinuated, I believe, that transportation officials back in Washington were secretly concurring behind closed doors

that nationalization of the railroads was pretty much in the cards.

In the face of railroad developments during the past few years, certainly the topic has been discussed. But, I can tell you, there is no one I know in the Department of Transportation who seriously feels that this is an acceptable solution or who feels that such a step is inevitable.

Those who look longingly at "other countries'" railroads -- the nationalized ones, of course -- as paragons of efficiency and profit spend too much of their time gazing at the glamorized versions of foreign travel in the travel sections of their newspapers. They are not taking a hard look at the profit and loss pictures of these railroads. These are not so glamorous.

We in the Department of Transportation have looked long at these figures over a period of time and we see nothing there that makes us want to take over the Nation's railroads. In fact, we see just the opposite, and it makes us renew our efforts to do all we can to make sure that such a step never comes about.

I do not say this with a feeling of desperation nor do I say it for myself alone.

There is a general feeling of hope and optimism within the Department that we can help turn this thing around and help restore to this country what it needs: a strong, healthy, privately-owned railroad industry.

We know the time is late and that interminable discussion and hand-wringing will not produce solutions, but I am convinced that our optimism is not ill-founded. I would not have left Chicago to go back to the Federal City if I thought I was going to preside over the transition from private to public ownership of the railroads. That kind of job I don't need.

The Department of Transportation has recently submitted legislation, as you know, which we feel -- if enacted -- will help create an atmosphere in which the railroads can revive and start back on the road to general recovery.

I would now like to discuss with you these two bills: the Transportation Regulatory Modernization Act of 1971 and the Transportation Assistance Act of 1971.

Basic to the Transportation Regulatory Modernization Act is the premise that freedom from unnecessary constraints and freedom to rely on and respond quickly to competitive market forces, in effect you shippers, is essential to the resurgence of a vital, privately-owned railroad system. It stands to reason that you can't tie a man's hands and then ask him to compete. Current regulatory practices have severely hampered the entire transportation industry but have most seriously affected the railroads. By holding some railroad rates above competitive levels, for example, traffic has been diverted to higher cost modes, costing shippers an estimated \$2 billion annually in excessive freight charges on traffic that could have moved as efficiently but more economically by rail. At the other end of the scale we estimate from an ICC study that 23% of rail tonnage moved at below variable cost levels in 1970, thereby costing the railroads some \$480 million in unrealized revenue.

Our proposal would meet both of the problems by establishing a "zone of reasonableness" and letting the carriers compete within that zone in a flexible manner. After filing once with the ICC at the time of reduction or increase of rates, there would be no further need to seek additional regulatory approval.

There must, of course, be boundaries to this freedom. And, at this point, I would like to clear up a point of semantics. The word "deregulation" which is tossed around to describe our proposal is somewhat misleading and scares some people -- particularly some of you shippers. I prefer the word "reregulation" but stripped of all the restrictive connotations that the word "regulation" has historically evoked. We propose ceiling and floor rates. As an upper limit in those cases where no effective intermodal competition exists, no rate could exceed 150% of fully allocated costs, thus preventing excessive rates where the market forces do not prevail. At the lower level, no rate could fall below the variable costs, thereby eliminating the burden of transporting deficit commodities and also erasing the possible incidence of predatory rate practices.

In order for carriers, shippers and the market to adjust to these changes, we have also provided for a period of orderly transition. This provision stipulates a maximum annual change of 20 percent in any rate, up or down, and will ease the impact particularly in those instances where rates had been held artificially high and in other cases where rates are being adjusted from below-cost to variable cost levels.

While I concentrate on the beneficial effects of the proposals on the railroad industry, it must not be assumed that the trucking industry will thereby suffer. Changes in rates will divert traffic both ways and we fully expect both industries, shippers and the public to fare much better under our proposed regulatory changes.

The second phase of our proposed regulatory changes follows naturally from the overall objective of providing freedom and increased reliance on market forces. We must eliminate the retarding effect that rate bureaus have on flexibility and innovation in carrier pricing and services. While rate bureaus perform a useful service, in light of our desire to lessen regulatory supervision over ratemaking, the "common denominator" philosophy of the rate bureaus is inconsistent with our overall objective.

Another financial drain of the railroad industry that we propose to eliminate is the length of time it takes to get State action on intrastate rate increases. Since intrastate traffic is substantial -- about 12 percent -- revenue loss has been severe. As of November 1970, revenue loss due to time lag factors on four general rate increases exceeded \$118 million on a cumulative basis. Continued inaction by certain States on these and an additional rate increase adds another \$40 million to that figure over the period from November 1970 to August 1971. I might add that these requests for general rate increases were not arbitrary increases affecting only particular States but were in response to changes in analogous interstate rates that had been approved by the ICC and a majority of the other States.

To balance this culpability in the new spirit of Federal-State partnership, we also aim to repeal the provisions of the Interstate Commerce Act which permits rail and motor carriers to handle Government traffic at reduced rates. This particular practice has the long run effect of placing an undue burden on the private shipper and has further exacerbated the financial problems of the common carriers. Under our proposal, carriers will increase their revenue and a more equal competition will be assured. It will also assure that government at all levels will pay their proper share of the Nation's transportation bill which you shippers are bearing now in part.

Furthermore, we propose to transfer control of per diem from the ICC to the Department of Transportation. Not that we want all the action just for action's sake. What this

proposal aims to do is center all responsibility for developing car ownership and car utilization programs in one agency. It will also take it out of the realm of the judicial which it has grown to be and transfer it to the economic realm where it belongs.

Finally, our regulatory modernization bill establishes new procedures and standards for the adjudication of railroad abandonment cases. Despite the decrease of business in the last 30 years, the rail system mileage has declined only slightly. In 1971, the railroads operated nearly 205,000 route miles; of this about 21,000 miles were extremely light, non-profitable branch lines. These lines in 1971 cost the railroad industry an estimated net loss of nearly \$60 million. Until last week, the ICC did not have a volume base upon which non-profitability could be presumed. ICC has since set 34 carloads per mile per year as the volume criteria for abandonment. This is a step in the right direction, but the figure is far below the million gross ton miles we propose as the base and it is origin-destination oriented. The criteria should relate to the overall viability and profit potential of a line to be really meaningful. At the same time it is not our purpose to eliminate completely abandonment procedures, but rather to simply rationalize and expedite them so that the real economic issues are not lost in the long application process. Ultimately the burden will still be on the railroads to prove that they are bearing an unjustifiable burden, but this shouldn't be too difficult if -- as I have said before -- you take a look at these branch lines and see weeds growing chest-high on the right-of-way. One doesn't need a Ph.D. in Economics to see that these lines simply aren't making it.

But what about the shippers on these marginal lines? As a corollary to expedited abandonments, we have provided for adequate substitute transportation in those areas where the railroads pull out. In short, we have provided revised conditions for the liberalized entry of truck and water carriers. Even though we feel that rail line abandonments should cause increases in trucking business particularly, unless entry procedures are liberalized, shippers in those areas and in new potential markets could suffer. Loosening restrictions on commodities carried, points served, equipment or routes served and other factors -- as present regulations require -- will not only provide service in those areas abandoned by railroads and provide freer entry to new markets, but also will act as a check on those carriers who might use ratemaking freedom to exploit a strong market position.

I think you can see that our proposed measures in the Regulatory Modernization Act are not "radical" in the sense that they are "far out" proposals that would disrupt the

transportation industry. Nor are they preferential to the railroads to the detriment of the other carriers. They are merely steps to create a balance among the modes to assure more efficient overall transportation to the betterment of all the modes, shippers and the public. If there is one theme that the Department of Transportation has that permeates all its programs, it is "a balanced transportation network" and we are convinced these proposals are fully consistent with that theme and goal.

So, these measures are aimed at removing those regulations that have prevented a balance in transportation and have held the railroads back from realizing their full potential.

But, there are other steps we must take and this brings me to our other piece of legislation: the Transportation Assistance Act of 1971.

Among the several problems besetting the railroad industry there are three that are most critical and the first two affect you shippers most directly:

- The inability of the carriers in their present condition to secure on reasonable terms an adequate supply of freight cars and other rolling stock.
- The lack of a modern national system for controlling the distribution and utilization of freight cars.
- And the continued existence of discriminating and unfair taxes on the property of other surface common carriers by State and local governments.

We estimate that an average of 62,000 new and rebuilt freight cars will be needed annually for replacement purposes. Another 43,000 cars per year will be needed through 1974 to quickly enhance the level of car service and eliminate the deficit that has accrued since the 50's and 60's. Through 1980, therefore, this comes to a total of 747,000 cars at a cost of \$11.1 billion.

Under our plan, we propose Federal insurance of equipment obligations as a support for rolling stock purchases. This will particularly help the weaker carriers, which, as you know, because of high interest rates cannot finance equipment. Therefore, those roads have not contributed their share of cars to the national fleet. Lack of modern, efficient motive power is also a major problem for the weaker roads.

Secondly, we propose a research and development program aimed at the design of a national rolling stock scheduling and control system. Under the present system, the utilization problem is severe. Cars move loaded or empty 12% of the time, spend 60% of their time being loaded or unloaded and move freight only 7% of the time. Of course, the problem is complex. We are talking of controlling 1.8 million cars over a 207,000 mile rail network and this is a task of giant proportions. So, only a coordinated, efficient national system is capable of providing that type of control. Some work has been done by individual roads but this does not begin to meet the problem on an inter-railroad and national basis. In view of the enormous public benefits that would accrue from the establishment of such a national system, there is no question in my mind that Government financial support would be a very worthwhile investment. It would also be consistent with our effort to revitalize financially-distressed railroads.

Our bill provides \$35 million to develop and demonstrate management systems on three operational levels: (1) terminal or local, (2) individual railroad, and (3) national or inter-railroad. To attempt to create a national system without building a strong base at the first two levels would be self-defeating since all three levels are part of a piece.

Unless a coordinated national system is established, I see no hope of improving the railroad utilization problem, no matter how much the car fleet is improved. Adding cars would only further complicate the problem if there is no system for improving their utilization.

Finally, the Transportation Assistance Act would make it unlawful for a State or locality to assess or collect a higher rate of property tax on interstate carriers than on other similarly situated taxpayers. The latest year available, 1968 shows State and local discriminatory taxation cost the railroads \$69 million.

In conclusion, let me point out that both of these bills will go a long way toward creating an atmosphere in which the railroads can start regaining their strength and do the job they are so uniquely capable of doing -- and shippers will be the immediate beneficiaries. Furthermore, they will be able to do this without large outlays of Federal funds and, most importantly, without Government control. And this is what the Department of Transportation and the Federal Railroad Administration is interested in: a strong privately-owned railroad industry that contributes to better transportation, i.e. better service for shippers and consumers. Without sounding euphoric, I have a lot of hope this can be achieved and, I can tell you, officials at the Department share this optimism.

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REMARKS PREPARED FOR DELIVERY BY JOHN W. INGRAM, FEDERAL RAILROAD ADMINISTRATOR, BEFORE THE MEETING OF THE TRANSPORTATION COMMITTEE OF THE NATIONAL GRAIN AND FEED ASSOCIATION, WASHINGTON, D. C., AUGUST 17, 1972

Good afternoon. I am pleased to attend this important meeting and to be able to talk with you today about some of the problems which we share. When I say we -- I mean the railroads of this country and those agricultural interests which depend upon them for the transportation and the distribution of their products.

In Spain right after their civil war the traditional toast was amended so that to the usual wishes for health, love, and money, was added -- "and transportation." For in that war-torn country -- mobility was as important to every man as were the other components of happiness.

Secure on our continent, the people of this Nation have become the most mobile in the history of the world -- and no small part of that characteristic must be attributed to the extent and serviceability of our national rail system. Leading the urban and rural development of this vast land -- our rails carried pioneer industry and agriculture to and throughout every state and even within Alaska -- our newest state.

Now, in their maturity, and in many cases superseded by public highways -- the rails are suffering -- suffering from traditionalism -- from over-regulation -- from obsolescence -- and from errors and judgments of the past.

We at FRA are attempting to erase some of the errors, upgrade both hardware and software, rationalize regulation, and upset, to the degree commensurate with human nature, some of the traditions which threaten to become winding sheets for this essential transportation lifeline.

In legislation now before Congress are procedures for improving the health of the railroads, upon which all of us depend so heavily. One of these directly affects some of

your membership, the railroad problem of inefficient and uneconomic branch lines.

In 1971 the railroads operated nearly 205,000 route miles of which about 10% were extremely light density branch lines, lines generating less than 25 carloads per year per mile and averaging less than nine. On a 25 mile branch that is enough traffic to produce an average tonnage train about once every three months. Operation of these lines in 1971 cost the railroad industry an estimated net loss of nearly \$60 million. Perhaps more importantly, the majority of that loss was sustained by the roads that could least afford it.

The branch line concept has been obsolete for 40 years, the victim of motor trucks and an ever-expanding network of paved highways. The branch lines' seeming immortality is attributable to a unique combination of management inertia and regulatory obstacle. Today many branch lines are really operating museums of nineteenth century transportation, paid for in 1972 dollars, benefitting a very few at the cost of many.

The bill now before Congress provides specific new criteria for the regulation of line abandonments: criteria that would encourage the abandonment of deficit-ridden lines, but require the preservation of those lines which can recover their full costs. Such criteria are basic to good economics, and to the creation of a balanced efficient national transportation system.

The new criteria and procedures are especially designed to prevent hardship -- to allow time and study of individual cases -- but also to accomplish the primary purpose which will benefit all of us -- to rid our rail system of a 21,000 mile albatross.

One of those interests which will most certainly be affected will be those of the country elevator operators and small shippers located along light density branch lines throughout this country.

Let's look at the small shipper or the little elevator operator who is up at the end of the branch line and is shipping 50 cars a year. He finds that the railroad wants to abandon that line, that it would cost \$15,000, or some such number, a year over and above what he is paying in freight to keep that rail operation going. He divides that by the number of bushels he is shipping and finds that he has to buy grain a dollar a bushel cheaper from his farmers than the fellow only ten miles away but down on the main line. Naturally he is looking for a way to keep the

branch line in business. And he feels that he should be given the same rates by the railroad as the 3 million bushel main line operator. But it is not a question of the little man versus the big man. It is a question of the little man on his own railroad when the big man is on a railroad that is jointly used by many people.

Many railroads have introduced hundred ton hopper cars which can't operate on many branch lines. The bridges just aren't big enough to take them. So they are restricted by and large to heavy density branch lines and main lines. The light density branch line probably has a bridge somewhere that prohibits the use of these large cars. And branch line users are saying, well, fix the bridge. The railroad says that would not be economically feasible -- and the rejoinder is "give us the same rates." The simple fact of the matter is, the heavier you load a car, the lower the cost per ton of moving it. The same rates cannot apply on a 50-ton boxcar load and a 100-ton covered hopper car load. The cost structure is entirely different.

The key questions? Should we have this drag on efficient agriculture that is caused by the little fellow who is in a commercially disadvantageous position, insisting that he get the same transportation treatment as those who are in a commercially advantageous position? And if we should somehow try to make these two vastly different commercial situations equal, who should pay for it?

A good number of our railroads are now engaged in subsidizing these inferior commercial situations. In other words, money earned on main line operations is being used to subsidize the branch line operations. And the net result of all that is that railroads have been going bankrupt, especially those with lots of branch lines. And that means that the shippers on the branches of the bankrupt lines are either going to have to find alternate means of transportation -- move -- or go out of business.

What we are saying, is that we need a new approach on small branch line operations. They should take advantage of other modes. They should take advantage of new rail technologies which are available. They should put themselves into an economically viable position -- without asking to be subsidized by the overall national transportation system or by other transportation users. For the railroads are still the great lifeline of this country -- still carrying 50% of the rail, truck and barge freight -- and still providing each of us with the essentials which have given this country the highest standard of living in the history of the world.

And we want to maintain that standard -- hopefully without doing injury to a single individual. But you can see that this is not going to be easy. But we need positive solutions rather than over-reaction to the inevitable. Probably what this association should do, at the outset, is to make a comprehensive study of the effect of abandonment of light density branch lines on their membership. Other similar associations should do the same. We want to work with you -- but it will be easier to work on this problem when we know the size and shape of it.

One of the most difficult problems in connection with abandonments involves giving affected shippers and communities sufficient notice to permit them to react intelligently. For this reason it would appear proper to me to require railroads to file maps indicating clearly their low density lines, which is to say, lines which are or may become candidates for abandonment in the future. Based on this sort of information it should be possible to make rational decisions as to the magnitude of the problem and the most appropriate response. Until we have such information, it is impossible to make such decisions, except of course, where the tracks have trees of more than an inch in diameter growing between them. This is admittedly an informal criteria for abandonments, but you might be surprised how much of the trackage in the country we have reason to believe would be eliminated by rigid application of a one-inch tree trunk diameter rule.

What began many decades ago as an important set of railroad regulations to promote the growth of this Nation has turned into a noose which is rapidly strangling one of our most essential industries -- and one which affects every other industry and business throughout our economy. The effect of over-regulation on the railroad industry is actually one of the most startling arguments -- in reverse -- for our free enterprise system. The most regulated industry in the U.S. is the sickest industry in the U.S. Can that be an accident?

When the ICC's case load at the beginning of the last fiscal year was 8,732 cases with interminable time lags -- it became clear that it was necessary to get to the heart of the matter. No amount of additional people or more facilities were indicated -- rather, eliminate the cause of this roadblock and get on with the business of running railroads.

The Nixon Administration's Regulatory Modernization Act, now before Congress, is designed to release the carriers from arbitrary constraints, not only in the pricing, but also in the provision of their services. Its passage -- fully supported by Secretary Volpe, is the keystone of the transportation policies of President Nixon. And rightly so, for this Act concerns those major issues which are critical to our future transportation system.

The legislative establishment of a "zone of reasonableness" in ratemaking will at least in part bring the carriers back into the free enterprise system. No rate could exceed the ceiling. A floor under rates, all rates, including Section 22 (Government rates), would be pegged at "variable cost." The lower level will prevent predatory inter-modal competition.

The legislation also proposes elimination of discriminatory state and local property taxation. Our bill would make unlawful the imposition of unreasonable and unjust taxes on transportation property. Under present law, state and local taxing authorities have assessed taxes on transportation properties at higher rates than for other properties in the same area and we believe railroads would realize at least \$69 million a year in savings from the reduction of such taxes.

The freight car problem is a major factor in the ability of the railroad industry to properly provide the service you need. The financial condition of the railroad industry is a prime cause of the freight car problem, and conversely the freight car situation contributes to the industry's further financial deterioration.

Our proposal for the car utilization improvement sections of the Assistance Act calls for a national rolling stock scheduling and control system and provides \$35 million to develop and demonstrate a national or inter-railroad freight car management and information system. This system would be run by the railroads -- not by the Government.

Since 1960, the aggregate capacity of the car fleet has increased about 8%, while total demand for intercity freight transportation increased about 45%.

Utilization of the freight car fleet today is not acceptable. The "average" freight car handled only about 15 revenue loads last year, with an average haul of

just under 500 miles per load, about one 500 mile revenue trip every 24 days -- 21 revenue miles per day. Other information indicates that the average car moves loaded only 7% or empty only 5% of the time. The remaining 88% of the time is spent in yards, at loading docks, and at repair stations.

Even with expected improvement in utilization, the rail carriers need an average of 62,000 new and rebuilt freight cars annually for replacement purposes -- another 43,000 cars per year will be needed through 1974 to enhance the level of car service and eliminate the deficit of the past 20 years. The total through 1980 is some 750,000 cars at a cost of \$11.1 billion.

Our proposal embodied in the Railway Assistance Act is for Federal insurance of equipment obligations to support rolling stock purchases, financed by a premium of up to one percent on principal.

Naturally, we at FRA have given a lot of thought to the social and economic effects of the legislation which is now before Congress. We know that its enactment will require changes -- and while change has been called the "only constant," it can frequently be uncomfortable in the short term. Because we understand that disruptions will result from new procedures, we are going to be actively working to help find economical and acceptable alternatives for current practices.

In the case of abandonments, some of our people are looking at things like branch line ownership by entities other than railroads -- or truck service to carry grain to main lines -- or vehicles with both rubber and steel wheels, to operate on roads or rails -- or light engine carriage -- or shipper crews -- or container adaptation. There are innumerable alternatives and we want to explore them with you.

We fully expect the proposed legislation to result in:

- More rational allocation of traffic;
- A stronger railroad system; and the
- Introduction of motor carrier service to replace uneconomic rail service thereby providing a broader traffic base for local truck service.

But the first essential to the solution of any problem, as you know, is the definition of it. I look forward to your cooperation in that area. Working together, I think

that we are going to be able to come up with solutions which will not only relieve our agricultural economy and our railroads of an untenable burden, but also improve the commercial position of all of our agricultural interests.

Thank you very much.

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