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THE WHITE HOUSE

PRESS CONFERENCE
OF

WILLIAM T. COLEMAN, JR.
SECRETARY OF THE
DEPARTMENT OF TRANSPORTATION

THE BRIEFING ROOM

3:04 P.M. EDT

MR. NESSEN: Let me give you two quick announcements before we have Secretary Coleman.

One has to do with the President's decision on the strip mining bill. I do think we are going to have that ready to go and have the briefing by Frank Zarb at 4 o'clock. I will have a better idea after Secretary Coleman's briefing.

Steve?

Q Can we call that before we get tied up in this for 40 minutes?

MR. NESSEN: No, I would not because it is still a little shaky. It is for 6 o'clock release, anyhow.

Q I am talking about a technical call, Ron, in terms of true coverage and that sort of thing.

MR. NESSEN: Hurry on, then.

Secondly, some of you expressed an interest in getting the President's remarks over the telephone last night to the businessmen's dinner in New Hampshire.

We have obtained a recording of it from the people up there. You don't see the humor in that, do you? It is coming to you. We are in the process of transcribing it for you, and we will have it for you later today.

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To answer your questions and give you further explanation of the railroad legislation, of which you already have copies, we have Secretary Coleman, the Secretary of Transportation.

We also have Jim Cannon, the Director of the Domestic Counsel; John W. Barnum, who is the Deputy Secretary of Transportation; John Snow, the Deputy Under Secretary; and Ace Hall, the Federal Railroad Administrator. Between them they ought to be able to answer all your questions.

Mr. Secretary?

SECRETARY COLEMAN: President Ford is sending the Railroad Revitalization Act to Congress today. This legislation is designed to meet immediate and desperate needs of the Nation's railroads. It is a new Presidential initiative to restore the vitality of the Nation's railroads.

As you know, every American is served by low-cost, fuel-efficient rail transportation. The railroads are a pivot point for our entire economy.

But, the railroads are in deep trouble. A number are bankrupt. Others are on the brink of financial collapse. The terrible deterioration of track and rail cars prevents efficient operation.

The Railroad Revitalization Act will begin a long overdue effort to restore and revitalize this essential industry by eliminating excessive regulatory restrictions and by providing critically needed financial assistance.

A major cause of the deterioration of the railroad industry is an overly restrictive Federal regulatory system. The regulatory process has retarded technical innovation, impeded economic growth, and hampered the improvement of services.

The Railroad Revitalization Act will remove unnecessary and excessive regulatory restraints. The main thrust of the reforms is to place greater reliance on competitive forces, while preserving protection for shippers, carriers and labor.

The ratemaking provisions of the act will cause a reduction of rates that are too high and unfair to shippers, and will cause an increase of rates that are too low and not compensatory to carriers.

Railroads will be able to adjust their rates within a "no suspend zone." The ICC also would be prohibited from holding up a rate of a carrier for the purpose of protecting a carrier of a different mode of transportation.

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Among the other regulatory reforms proposed are an acceleration of the ICC's review process in cases of new services requiring a capital investment of \$1 million or more, restrictions on the anticompetitive activities of rate bureaus, an improvement in intrastate ratemaking procedures, and the prohibition of discriminatory taxation of railroad properties.

Regulatory reform is one part of the long-term restoration process. To meet the immediate need for essential improvements in roadbed, track, terminals and other operating facilities, the act provides \$2 billion in loan guarantee authority.

Loans guaranteed under the provisions of the act may be financed through the Federal Financing Bank, thus enabling railroads to borrow at rates more advantageous than private financial markets.

Additionally, the Secretary of Transportation would be authorized to defer principal and interest payments, thus making feasible major rail undertakings that hold little prospect of short-term payoff, but which would improve earnings over the long term.

Duplicative and redundant facilities are another major cause of the poor financial health of railroads. If we are to prevent the westward spread of the chaos now existing in the Northeast, a restructuring and streamlining of the national rail system must be set in motion. The laborious deliberations of the ICC are inadequate to meet this need.

Thus, as a condition of receiving loan guarantees under the act, we propose that a railroad may be required to enter into an agreement to restructure its facilities. Such restructuring could be in the form of merger, consolidation, sale or acquisition of assets or joint operation.

The procedures proposed by the act would enable a coordinated Department of Transportation-ICC decision on such agreements within nine months, in stark contrast to the ICC's 12-year deliberation in the case of the Rock Island.

I just left the President, and he has instructed me to use all my efforts to cooperate with the Congress to see that this legislation gets enacted immediately.

The only other thing I would like to say is that I think that the American people ought to know the process that is now going in to making policy determinations where we do have the opportunity -- Cabinet officers and others -- to meet directly with the President.

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Even though there have been other events in the country, such as Cambodia, that have taken more time, I think you would be amazed at the amount of time and effort that the President has given to resolve some very basic fundamental problem. I urge the Congress to act quickly to get this legislation on the books.

I am now available for any questions that you might have.

Q Mr. Secretary, as we understand it, this program is to get the Government off the back of the railroads and other transportation. How do you square that with the fact that you will be permitted to order the restructuring of the railroads before you may provide Federal assistance?

SECRETARY COLEMAN: We think that if Federal money is going to be used, or guaranteed, that certainly, as a public official and as Administration, you have to see that it is spent wisely. There is no doubt that today there is a great duplication of facilities. I just don't think as a public official that one can be making loans to a railroad to operate duplicate facilities when they should be combined.

Take the Rock Island situation, for example. There are six separate railroads that serve the area between Omaha, Nebraska and Chicago. Now, certainly it would not be in the public interest to make a guarantee when you are going to remain with those six railroads still operating, covering the same territory, and none of them doing it properly.

Q Mr. Secretary, this \$2 billion figure, what is your estimate? Is that the total need or what is your estimate of the need to fix up, for example, all the roadbeds?

SECRETARY COLEMAN: You first have to make a fundamental determination of how much of the existing system is essential to having a first-class national transportation system.

As you know, USRA indicated that within the Northeast there should be a reduction of lines. One of the provisions of the bill is that the Secretary of Transportation and the ICC, would make a study and in 90 days would list those lines which would be low density as against the other lines.

Therefore, until that is decided, you just would not have the final figure. Our tentative figure in the Department is that to have a vital first-class railroad system in this country within the next six or seven years, that you would have to spend \$101 billion.

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Of that amount of money, if the railroads presently continue to spend what they have been spending in the past, this \$71 billion that will be spent in addition to the regulatory reform that we suggest here -- and the other changes -- that we think that there would be an additional \$17 billion generated.

If my arithmetic is correct, I think that leaves a shortfall of about \$9.5 billion to be spent over the next ten years. We think that this proposed legislation would be an essential step towards trying to get what we are determined to get -- the railroads back in first-class operation -- and we think that it will be enacted by the Congress, which will go a long way toward doing that.

Q Could I follow that up? If you think that there is a shortfall of \$9.5 billion in that arithmetic, why do you pick \$2 billion for the amount?

SECRETARY COLEMAN: Well, because the shortfall is over a period of ten years, and obviously this fund is a revolving fund, and as loans are made and are paid off, or the money goes back into the revolving fund, that fact has to be taken into consideration.

Secondly, we feel that if the Congress and the department take a strong look at this problem and really get the railroads down to the operating size, that they ought to be to eliminate the duplication of the lines, the way you have low density lines, for example. There is an option that any shipper or any Governor that wants to subsidize that line to keep it in operation will have the opportunity to do so, that we think that this is an essential first step and that the Congress should move forthwith.

Q Where does the \$17 billion come from?

SECRETARY COLEMAN: That is just from the normal improvement that would help if you could do away with the regulatory lag, if you have a more intelligent method of regulation, and if you could permit the railroads to begin to restructure and end duplications of lines and that sort of thing.

Q Mr. Secretary, what guarantee are you giving that rates will come down under the bill? You say it does. They will come down, but what guarantee are you giving that they will not go up?

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SECRETARY COLEMAN: I would say that this bill will tend to restore the competitive force that should be in existence between the trucks, the barges and the railroads, and therefore in a free competitive system, freight rates will tend to be where the marketplace would place them.

On balance, we think it would be the efficient railroads -- they will come down. Now, of course, let's be fair. You do have labor cost problems. You have the cost of fuel and you have other things, so they will have to adjust to that.

Q So, you are not guaranteeing that this is going to lower the freight rates?

SECRETARY COLEMAN: We do say that under the present situation we know, first, that rates will continue to go up; secondly, you won't get the good service, and thirdly, the problem in the Northeast will continue to expand Westward, and we want to stop that.

Q Mr. Secretary, word is already out that the truckers lobbies and others are mounting a campaign against your reform legislation. Do you want to address yourself to that?

SECRETARY COLEMAN: I hope that once they see the legislation they will realize it is in the public interest. On the other hand, I guess as competitive forces are beginning to mount that type of campaign, one, it indicates the courage of the President, and secondly in part supports the merits of this bill.

This bill does go to the immediate problem of trying to restore the American railroad's position. They are an essential industry in this country, and that is what we are attempting to do. We are going to follow it with legislation dealing with the trucking industry and also legislation dealing with the airline industry.

Q Have you done any nose counting up there as to what Administration effort it would take to push this through?

SECRETARY COLEMAN: Whatever it takes, we will do it, sir. We have been working on the bill. We certainly have had some informal discussions. We intend to continue to have such discussions.

As you know, there was a bill which passed the House last year and didn't get through the Senate because they didn't have time. We think this bill has even more initiative in it than the former bill, but we are convinced that this is the way to solve the problems of the American railroads.

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I intend to use all of my energy, and Deputy Secretary Barnum intends to use his energy; and Mr. Snow, who had a lot to do with forming the policy, intends to do it. We are going to get the job done. It may take a lot of trouble, but we are going to get it done.

Q Mr. Secretary, on the loan program, under what act will the loan be issued?

SECRETARY COLEMAN: Under the bill, the loan can be under the Federal Financing Act, and as you know, that permits you to have an interest rate one-quarter of one percent higher than the rate at which the Government is making its borrowing. One-quarter of one percent.

Q Now much below the market rate is that?

SECRETARY COLEMAN: It is about two or three points below.

Q Two or three points. So, what is the substantive factor there?

SECRETARY COLEMAN: Well, that is two or three points. The interest, you pick a figure. It would be somewhere, then, maybe \$50 to \$100 million.

Q On the \$2 billion?

SECRETARY COLEMAN: Yes, but this is a revolving fund. Secretary Simon does a wonderful job of keeping the money at work. I make some arguments with him on some other darn good interest rates.

Q Mr. Secretary, won't this lead to other decreased loans, such as electric utilities, and low interest by the Federal Government?

SECRETARY COLEMAN: I think that the Administration loans--you leave aside the question of war and peace--the Administration is expending its effort in attempting to correct and change those economic problems that exist in this country.

We think, basically, it should be done through the private sector. We do have initiatives. I know that Secretary Dunlop is working on certain problems in the electrical industry.

I know that Vice President Rockefeller is working on them. I know that Jim Cannon is working on them. And I know that the President is working on them. We are going to turn this country around. We are going to get the job done and that is what we have been trying to do.

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Q Mr. Secretary, some of the things you said indicated that you were opposed to the plan that Justice presented at the Kennedy hearing. Did you have reservations about this plan as being proposed?

SECRETARY COLEMAN: This plan?

Q Yes.

SECRETARY COLEMAN: I have no reservations about this plan. I am going up to the Hill. I am going to defend it to the best of my ability.

Q Do you have reservations about the plan that was laid out by the Justice Department at the Kennedy hearing on the CAB?

SECRETARY COLEMAN: As you know, the CAB has nothing to do with the railroads.

Q This is a package that the President is talking about, and you have two more coming.

SECRETARY COLEMAN: The President is a great leader, gentlemen. We will have a lot of debate but the Administration will be together on all these issues. When we go up to the Hill, we will speak as one voice.

Q How do you translate this bill into lower passenger fares, or does it get into that?

SECRETARY COLEMAN: As you know, we have a separate piece of legislation which actually we got through both Houses, and it is waiting for the President's signature -- the Amtrak bill -- and that is the passenger bill.

Obviously, to the extent that you begin to rehabilitate these lines that carry freight, since they also carry passengers, that ought to reduce the cost of the passenger.

I don't think the press has sufficiently appreciated the extent to which the Department of Transportation has gone forward to try to put the passenger business on a more rational basis. The Congress supported the bill, as both Houses have passed it, and now it is awaiting the signature of the President, and I am pretty sure he will sign it.

Q Mr. Secretary, going along to the loan program, I want to make sure I understand it. You will have the revolving fund and the Government, in effect, will be subsidizing --

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SECRETARY COLEMAN: Wait a minute. All those won't be made below that rate. The loans will be made at the going rate. The Secretary of Transportation has the authority to fix it at a lower rate. It depends upon the company.

I mean, there are certain companies that have ability to pay in certain situation where, for example, a new line will be built. It will be built to go in and get coal. Once it gets the coal, it obviously will be a very profitable operation, but because of the time lag between the time of building and the time of the line actually bringing out the coal may be five years, it is proposed that the Secretary of Transportation has the authority to defer the payment of interest, to defer the payment of principle, but the bill provides that when it is deferred that then there will be interest on the interest.

So, you can't say that every railroad that comes up to borrow money will get it at a favorable rate of interest.

Q But there will be an expenditure of Federal funds out of the Treasury, right?

SECRETARY COLEMAN: It will be a loan which will have to be paid back.

Q My point is this: Does this violate in any way the President's ban against new spending programs?

SECRETARY COLEMAN: I would say no.

Q Why?

SECRETARY COLEMAN: Why? Well, the first thing, the interest rate is one-quarter of one percent above what the Government pays, so by definition, even at the lower interest rate, the Government is getting back more money than it is paying.

So, that is a short answer to your question. I mean, the interest rate will be one-quarter of one percent more than what the Government has to borrow the money, so therefore, it would end up that the Government would not be subsidizing and paying out in interest, borrowing money of greater sum than it is going to be getting back from the railroad.

Q In other words, you won't be spending Federal money out of the Treasury?

SECRETARY COLEMAN: That is correct, yes.

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Q Mr. Secretary, do you think that the best system for railroads is one in which there are competing railroad lines operating between, say, Omaha and Chicago, or will one rail line do that job and compete with trucking and barges?

SECRETARY COLEMAN: No, we are presently developing a national transportation policy. I am pretty sure that the policy will state that in any area where there is a major city or major shipping port, or major terminal, that at least two lines should serve that community. We would not suggest that there should be only one line, but we do feel that there is no need to have six lines serving between Omaha, Nebraska and Chicago.

Q Are you saying that between Chicago and Omaha there would be two lines?

SECRETARY COLEMAN: There would be at least two. There may be more than two, but there would be at least two.

Q Mr. Secretary, on the question of nationalization, does the Administration have a position on that?

SECRETARY COLEMAN: Speaking as the Secretary of Transportation, and I think I am also speaking for the President, our position is that we are 100 percent against nationalization.

Q Have you taken a position on the Astro plan?

SECRETARY COLEMAN: We have a study committee of which I am the chairman, and we are developing the Administration position. We will have that position, I hope, by June 23 or maybe sooner.

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Q Mr. Secretary, do you contemplate the possibility that under your authority under the loan part of this bill that you might try to bring about at least one of the transcontinental mergers you have talked about?

SECRETARY COLEMAN: We are going to actively attempt to eliminate duplication of lines. As you know, in my speaking, I have said first, because I believe it, and secondly, because it is the Administration's position, that to the extent possible, private industry ought to be able to solve these problems and, therefore, I am very hopeful that the railroads will come forward with the type of plan which will result in having an efficient rail system, one that is competitive and yet one that is making a profit throughout the country, rather than having one where there are railroads taking losses.

Q So, you would address yourself then to duplication of lines and not end-to-end mergers as far as your authority under the \$2 billion?

SECRETARY COLEMAN: I will attempt, under the act, to the best of my ability, to bring about the type of railroad system that I think, and the department feels, that a long study will best serve the needs of the American people, and that would include doing both. It will take a little bump to get the second done, but I hope we will have the luck to do it.

Q Mr. Secretary, how will this bill affect the United States Railway Association's Northeast plan?

SECRETARY COLEMAN: As I said, we are still developing the Administration's position to the extent to which we feel that that is the way to solve the problem in the Northeast. Obviously, under this act, and also under the bill to set up USRA, there is authority to make certain types of loans. This bill would give us additional authority, and if we feel that the way to solve the problem in the Northeast is by the type of restriction that I think ought to be done, we would certainly use that authority.

Q Why do you send this regulatory legislation up on a piecemeal basis instead of one, overall bill?

SECRETARY COLEMAN: If the press was not here I would say my answer to that would be -- referring to Cassius Clay -- a different stroke for different folk.

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But with the press here, I will have to say the problems in each area are different, and in working with them, you realize that what works in one area does not work in another area. We are convinced that what we are proposing here is the way to handle it with the railroads.

We are actively working, and there is a lot of activity for the airline and a lot of activity for the truckers. We will send each one up as they are finished. We felt that it was not in the public interest to hold this one back until the other two went up. We could not imagine that you could draw up one act which would cover all three situations.

Q Mr. Secretary, would you envision, with respect to the trucks, some similar area of legislating to set their own rates within the general framework?

SECRETARY COLEMAN: There will be freedom of the zone in pricing, yes, but they may not be the same figures that are in this bill, and the problems are just different.

The truckers grew up in a different climate. They used the roads. You there have not only the trucker using the road, but you also have the private automobile using the road, so the problems are just different. You have to realize when you have different problems you have different solutions.

Q Sir, do you expect to have the user charge coming from the barge lines?

SECRETARY COLEMAN: We expect to have the user charge.

Q Fuel tax?

SECRETARY COLEMAN: That is Frank Zarb's bailiwick. I think he is a tremendous public servant, and he can stand here in front of you and tell you what he proposes.

Q What about higher user taxes for trucks?

SECRETARY COLEMAN: We do have a highway bill which we expect to get up to the Congress in the next two or three weeks, and we will make recommendations in that bill as to how we think the taxes should be adjusted from what they were in the previous period.

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Q Are you going to increase them or reduce them?

SECRETARY COLEMAN: I think that we ought to wait until you see the bill. I just don't believe in giving you previews of something which is still in the -- I know you believe it, but I don't believe it -- things that are still being considered, which goes back to my observation at the end of my prepared remarks.

I really think that the American people would feel quite happy, quite secure, if they knew the extent to which we in the Administration are working, and you have a White House staff which is working awfully hard.

The President makes the final decision, and then after that, we come forward and we try to get the legislation through.

Q Mr. Secretary, when you are talking about getting rid of duplication and so forth, are you talking about merger of railroads?

SECRETARY COLEMAN: Sometime it will be by merger, sometime it will be merely by limitation of a line, and other times it will be by agreement of joint uses of the track. It depends. There are various ways of getting rid of duplication.

Q Who decides that a railroad goes out of business or merges?

SECRETARY COLEMAN: Under the act, the initial decision is made by the Secretary of Transportation, and the Secretary of Transportation has to make certain findings.

It is then sent over to the ICC, and the ICC has six months to hold a hearing and to determine whether the Secretary's finding will be supported or not. If they have not reached a conclusion in six months, they get an additional three months, but they have to write a letter to the Congress saying why they could not get it done in six months.

At the end of nine months, if they have not made a decision, it then comes back to the Secretary of Transportation, and I, in consultation and concurrence with the Attorney General of the United States, with respect to the anticompetitive factors, will then determine whether there should be the merger or there should not be the merger.

Of course, all of this in a free and open and legal society is subject to court review.

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Q Sir, does this mean it is going to be easier for railroads to drop unprofitable routes?

SECRETARY COLEMAN: We think that it ought to be, but there is adequate protection in the act in the first place. For the first time, the Secretary, along with the ICC, is supposed to set forth some guidelines as to what constitutes a low density route, and then with those guidelines, the railroads will indicate which lines they consider low density routes, and they will be published.

Then, if they want to abandon those lines, they have to give the proper notice. If the Governor of a State or if the shipper or someone will come ahead and say, "Well, this line is losing "X" dollars, we, by subsidy, will make up the difference," then the line cannot be abandoned.

On the other hand, if it turns out the line is losing money, if there is the notice and there has been the hearing, then obviously there would have to be an abandonment.

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Q Sir, do you think people who are now living and having to trade on the profitable routes or trucks, should they have more fear now if this legislation is enacted than they would in the past that they are going to lose their railroads?

SECRETARY COLEMAN: I would think not. They would have less fear. I think that this act, for the first time, will set up criteria to determine what is the low density route. There will have to be notice so no one can say I built a line or I changed my business based upon your line and then found out that you were going to abandon them.

Third, which I think is a very important provision, even though it is a low density route, even though the railroad is losing money if the Governor of the State or if the shipper wants to come forward and say, "Tell us what you are losing and we will make that up through a subsidy," then the railroad would continue to operate that line.

So here, I think, under the procedure, there will be much less fear that there would be abandonments which were not justified.

On the other hand, you have to face up to the fact that the railroad system did get completed in 1910 and whether you like it or not, a system which was completed in 1910 cannot be the system which best serves the needs of the American people today.

You cannot have a vital railroad system where railroads are operating inefficiently, where they are operating where they are losing money, where they are not able to maintain the track bed, where you have bankruptcies and by any method of charging proper freight rates you cannot cover your costs. So, therefore, you have to, in those situations, make changes.

We have had, in this country since 1956, first under the leadership of President Eisenhower and then followed by every other President, and also with President Ford, a building of an interstate highway system. We spent over \$56 billion. Now, certainly, some of that highway system must have resulted in lines which were formerly serving the community that is no longer needed to serve that community. There has to be change in this country if the country is going to continue to be economically viable. That is what we are trying to do.

Q You talk about increasing competition, yet it seems that we are talking about mergers and dropping routes now to make the railroad service more profitable -- at least causing it to lose less money and make it more efficient. Is that one of the inferences here? It seems to me the emphasis is on really less competition.

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SECRETARY COLEMAN: No, sir. I think you don't realize that when the ICC Act was passed in 1887, there was no such thing as a trucking industry. There was a barge industry, but it certainly was not the industry it is today.

Q You are talking about making it more competitive to other industries.

SECRETARY COLEMAN: To other industries and also to the railroads. It seems to me that if you have two or three very healthy lines serving the major cities and those lines are permitted to charge the rate which is the effective economical rate which covers the cost, that you will have more competition among the railroads than under the present situation where you now have these rate bureaus and the railroads can get together.

Until they do get together, you cannot even file for the decrease or increase in rates. This bill seeks to eliminate that. We don't think that you have more competition when you have six very unhealthy railroads. We think you have tremendous competition when you have two or three very, very healthy railroads.

We think you also have tremendous competition when you have two or three. You also have a very vital trucking industry which is paying its fair share, and you have a vital water barge industry. We think that the rates here will reach the level that economically they ought to reach in an efficient, well-run economy.

Q Mr. Secretary, do you have any sort of estimate right now of how many railroads will be put out of business? Do you have any sort of ball park figure of how many railroads will go out of business or be put out of business because of this bill?

SECRETARY COLEMAN: No, sir.

Q You are getting rid of the dead wood, are not?

SECRETARY COLEMAN: What I am saying is that we will urge that the dead wood become live wood, or if they want to come in and get Governmental help, that they have to get that under rational conditions and we are not going to subsidize the efficiency or duplication.

We are not saying that anybody has to go out of business. I think it is very interesting with respect to the Rock Island that once we took a firm position in saying that we were not going to support it, that the Rock Island somehow is continuing in operation.

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I would like to correct maybe an observation that I made which may be slightly misleading -- I don't like to mislead -- and that is in our present legislation we are not intending to increase the tax on any of the gasoline fuel of the trucks.

THE PRESS: Thank you, Mr. Secretary.

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(AT 3:40 P.M. EDT)