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U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20590

STATEMENT OF SECRETARY JOHN A. VOLPE BEFORE THE SENATE SUBCOMMITTEE ON SURFACE TRANSPORTATION OF THE SENATE COMMERCE COMMITTEE, ON S. 2362 AND OTHER PROPOSALS DESIGNED TO BENEFIT THE SURFACE TRANSPORTATION INDUSTRY, TUESDAY, NOVEMBER 16, 1971.

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you to discuss several legislative proposals designed to address the urgent problems which are besetting many segments of our surface transportation industry. In my testimony I will comment not only on S. 2362, the Surface Transportation Act of 1971, but also on features of the Department's two proposals, S. 2842 the Transportation Regulatory Modernization Act of 1971 and S. 2841 the Transportation Assistance Act of 1971.

As you are aware, Mr. Chairman, the Department has testified on two previous occasions specifically on economic and other problems facing the nation's railroads. On April 22, 1971, Assistant Secretary Baker discussed the problems affecting the railroad industry and indicated at that time the Department's criteria for legislative measures addressed to these problems. And, on June 29, 1971, Mr. Baker spoke to the freight car supply problem and set forth the Department's concepts for improving utilization of the car fleet, increasing car ownership, and increasing revenues, profit and cash generated by the car fleet investment.

While the problems of the railroads are clearly the most critical, they must be considered in the larger context of the entire domestic surface transportation industry, which apart from the railroads includes some 15,000 regulated common and contract truckers, bus companies, a large number of domestic inland and coastwise water carriers, oil pipeline companies, and freight forwarders. As you know, Mr. Chairman, only the railroads are totally regulated by the Interstate Commerce Commission. Substantial portions of the activities of other modes are either partially or fully exempt from regulation. For example, approximately 40 percent of the inter-city motor carrier industry and over 90 percent of the water carrier industry are not subject to regulation.

The importance of the surface transportation industry to the nation is reflected vividly by the $98.8 billion contribution it made to the gross national product in 1970, approximately ten percent of the total GNP. To achieve this, the industry carried 11-1/2 billion gross tons of freight. Total revenues generated from freight and inter-city passenger service were $54.2 billion and provided employment for 3.7 million people.

The major responsibility for the operation of our surface transportation system historically has rested in the private sector--the privately owned and operated contract and common carriers by rail, motor, water, and pipeline. While in large measure, our surface transportation network has served us well, the performance of the industry has not always been satisfactory. Witness of this is the acceleration of prices and deterioration of service, often to the detriment of the shipping and consuming public. Some carriers, notably railroads, are in severe financial straits. We can expect that over the current decade and into the next, the demands on the industry will become even greater. As an illustration, by 1980 our transportation system must be equipped to handle over three trillion ton miles of freight--almost a forty percent increase over current levels.

Thus, we have reached the point where a failure to apply effective remedies to the ills of the industry not only will aggravate further the deficiencies of the system, but may seriously undermine the ability of the private sector to maintain its dominant role in the operation of the system.

In response to this need, the proposals presently before your Committee, Mr. Chairman, are addressed to two basic concerns. First, there are measures which are designed to, or have the effect of, revising, reforming or modernizing various features of the Interstate Commerce Act and other laws dealing with the regulation of domestic surface transportation. Second, there are proposals directed in various respects to the need of carriers for additional income and financial assistance for the provision of needed services and capital improvements.

Before discussing the specific features contained in the various proposals before the Committee, I wish to emphasize one very important point. Although there are differences between our two proposals and S. 2362, there are also many common features. All these proposals are concerned with essentially the same pressing problems and demand full discussion and evaluation of appropriate solutions. It is clear that all of us concerned with these problems are agreed on the need for prompt and immediate action in this area. We therefore appreciate the opportunity that this Committee has afforded in calling these hearings. It is only in this setting that we will get the full discussion and deliberation that are so necessary for a subject as complex and controversial as this.

The task before us and your Committee, Mr. Chairman, is not an easy one. The need for revising and modernizing the regulatory laws affecting surface transportation has been recognized for many years. Numerous proposals to that end have been advanced and considered by Congress. Few specific changes have been made, however, due to the complexities of the regulatory laws themselves and the equally complex interplay of the regulatory laws and the numerous investments, arrangements and commitments that have been made under the present regulatory system.

The Department, as the Committee is aware, has a very large interest in these regulatory laws and over the past year has been examining them with a view toward making a number of proposed changes. These proposals are contained in the Transportation Regulatory Modernization Act of 1971. The provisions of this bill, which I will deal with in more detail later, represent not only the considered views of this Department but also those of all interested executive branch agencies and departments who shared in the deliberations and preparation of this legislation. We concede that our efforts were subject to much delay during this process, but are confident that they represent the best proposition to deal with this subject.

The proposals contained in the Department's Transportation Regulatory Modernization Act make a number of amendments to the Interstate Commerce Act. As I have noted, our proposals are premised on the belief that increased reliance on competitive forces and the ability of regulated surface transportation carriers to respond to these forces free of unneeded constraint is an essential prerequisite to the revitalization of a privately-owned transportation system--one that will be fully capable of providing the efficient and economical services so vital to our national economy.

At this point, I will discuss the major features of our proposed Transportation Regulatory Modernization Act and the regulatory provisions of S. 2362 and present some of the rationale behind our recommendations. The first major feature of our regulatory proposal provides for a measure of pricing freedom within what has been characterized as a "zone of reasonableness". This provision would be applicable to rates charged by all regulated carriers subject to the Interstate Commerce Act. Given transportation alternatives available to most shippers in today's transportation market, we believe that the establishment of surface transportation rates should increasingly be premised on the costs of providing the service in question. This is not only feasible, but has been recognized as being desirable by many outside commentators, the carriers and their users, and the Commission itself. In our view, a movement toward a more cost-based rate structure can be achieved by substituting competitive forces for the present scheme of detailed rate regulation. We feel we have provided for such a substitution with appropriate safeguards. Under our proposal, individual carriers would be permitted to reduce or increase their rates upon filing them with the ICC, but without further regulatory approval, subject to several limitations.

First, existing law states that rates must not be unduly preferential or prejudicial or unjustly discriminatory. This principle is valid, and we have not changed it.

Second, in those situations in which intermodal competition would not provide an alternative effective and competitive service, the Commission would be empowered to establish a ceiling on rates so that they do not exceed a 50 percent mark-up over the full costs of handling such noncompetitive traffic. For example, if a shipper had available only railroad service by one or more railroads, such a ceiling would apply; on the other hand, if that shipper could also avail himself of effective competitive alternative service, such as by truck or barge, as is commonly the case, the ICC would have no authority to set such a rate ceiling. We believe that, in this latter situation, the intermodal competition would provide an effective ceiling control.

Third, there must be a floor for rates. Our concern, shared by both carriers and shppers, was that without such a floor under rates there would be the ever-present danger of predatory rate reductions, designed or having the effect of eliminating competing carriers from the marketplace with the ultimate deterioration of total service. We feel we have satisfied this concern by explicitly requiring all rates to be compensatory. We have defined a compensatory rate as one which equals or exceeds the variable costs of handling the traffic to which the rate is applicable.

Using the best available data, we estimate that the annual loss to the railroads of transporting traffic below this compensatory level is $480 million. Supportive of this estimate is Penn Central's experience. In prior Congressional testimoney, Penn Central trustees estimated that Penn Central lost $80 million during 1970 from moving commodities at rates below cost. Extrapolating Penn Central's loss experience to the entire rail system would give an annual estimated loss of about $650 million. Of course, Penn Central's particular situation is more aggravated than that of the rail industry as a whole, so that the $480 million estimate is a more reasonable one for the rail industry as a whole. In any event, we are most confident that the imposition of a floor on rates, on the basis we have proposed, would have a pronounced beneficial effect on railroad revenues and income.

Let me add another point at this time. I have talked with a number of major shippers during the development of our proposals, and they indicated their concern over the need for fundamental changes in our surface transportation industry. Many of them expressed a willingness to bear increased rates and charges where they would be accompanied by improvements in transportation service. Current marginal rates often lead to marginal service, which serves to increase shippers' total costs. To the extent that these costs can go down, net revenues to the shippers will go up. We feel that our proposal will have that effect.

Fourth, in connection with the establishment of this zone of reasonableness, our proposal provides for a measure of phasing. In other words, rate freedom is introduced gradually. Notwithstanding the floor and the ceiling provisions, no rate, upon a protest, may be increased or reduced by more than 20 percent in the first year after the bill's enactment or by more than an additional 20 percent up or down in the second year. While we would not expect swings of this magnitude to take place in many instances, it seems desirable to provide an orderly transition from the existing procedures to the new approach we are recommending. In this way carriers, users, and the market they serve will have sufficient time to adjust to the revised rate structures.

Another primary objective of our regulatory proposal is to recast the provisions of the Interstate Commerce Act dealing with rate bureaus. As you know, the majority of carrier rate practices, arrangements for the interchange and pooling of equipment, and similar matters are very often established in concert pursuant to agreements between carriers of the same or different modes under section 5a of the Interstate Commerce Act. While they are formally titled under various names, the organizations created pursuant to these agreements approved by the ICC are collectively known as rate bureaus. Of particular importance to our considerations in this regard is that section 5a of the Interstate Commerce Act grants immunity from prosecution under the antitrust laws for agreements approved by the Commission and joint actions taken by the carriers under such agreements.

Indeed, these rate bureaus perform a number of important functions. They establish rates and regulations for the interchange and facilitation of traffic moving over the lines or routes of two or more carriers. They also establish standards that are applied throughout the territories over which they have jurisdiction. It appears, however, that the rate bureaus and associations have a retarding effect on carrier competition by discouraging flexibility and innovation in carrier pricing and services. Consequently, the retention of section 5a and the carrier agreements established under it, in their present form, would be inconsistent with our policy objective of placing increased reliance on competitive forces and enhancing the ability of the carriers to respond to these forces individually based on the dictates of their own particular markets. Furthermore, this departure from our national policy of free and open competition expressed in the antitrust laws, as authorized in section 5a, has been justified by the existence of extensive regulatory authority under carrier rates and practices. Since we are attempting to lessen regulatory supervision over rates, this principal justification for collective carrier pricing is of less relevance now.

Therefore, our proposal has made the following revisions in rate bureau operations: (1) antitrust immunity would be denied to carriers with respect to any rate or any other matter applicable only to the traffic or routes of a single carrier or to joint rates and through routes, except for carriers actually participating in a particular joint rate or through route; (2) rate bureaus would be prohibited from protesting a rate proposed by one of their member carriers; and (3) a representative of the ICC would be notified of all rate bureau meetings and could attend them at his option.

The thrust of these and other proposed changes in this area is to indicate those activities which are no longer to be approved by the ICC and thereby immunized from the operation of the antitrust laws. The ICC would retain its authority to approve all rate bureau agreements and to impose such additional limitations and conditions as it believes reasonable and necessary.

A third key feature of our regulatory bill establishes new procedures and standards for the adjudication of railroad abandonment cases.

Despite the growth of the vast highway and pipeline networks, rail system mileage is only slightly smaller today than it was in 1939. Much of the mileage is in light density branch lines whose maintenance and operating costs constitute a major financial drain on the railroads. Abandonment of much branch line trackage appears essential to restoration of their financial health and concentration of their resources where they are most efficient.

Existing regulatory procedures have tended to discourage rail abandonments. Under current procedures, the Commission may require continued operation of an uneconomic line if it is determined to be required by the present or future public convenience and necessity. Since there are no explicit economic standards for defining this term, most abandonments are protested. As a result, abandonment cases often entail protracted hearings, and the prospect of going through the expense, delay and uncertainty of this regulatory process discourages the filing of abandonment applications.

Our proposal seeks to speed up the regulatory process in abandonment cases and to provide concrete standards for adjudicating them. At the same time, the right of the users to adequate notice, and, in some cases, to the continued operation of the line, on a compensatory basis for the carrier, is maintained.

In brief, our proposed abandonment provisions work as follows: A railroad is required to give three weeks' public notice prior to the filing of any abandonment application to the Commission. The railroad can abandon the line thirty days after the filing, if there is no complaint. If, upon complaint to the ICC by a user, it is determined that the abandonment would substantially injure the user, the abandonment may be suspended for six months. During this period, the Commission must determine whether the line lost money in the past twelve months. In determining losses, the bill adopts a standard based on the variable costs of the line or operation in question.

For light density lines or operations, defined in the bill as those failing to generate at least one million gross ton miles of traffic per mile over the twelve-month period prior to the application, where losses can be presumed, the bill does not require that the railroad initially demonstrate losses. Where the Commission finds that a particular line or operation is covering its variable costs, the application must be denied, except that no application shall be denied if the continuation of such line or operation would require the making of capital improvements, the economic cost of which will not be covered by an excess of revenues over the variable costs of such line or operation over the life of such improvements. If the railroad did lose money, and shippers have effective substitute service available, the application must be granted. If no effective alternative transportation service is available for a money-losing line, the Commission may delay the abandonment for an additional six months. At the end of this period, the Commission must grant abandonment unless revenues are then found sufficient to meet variable costs, through, for example, improved operating efficiencies, rate adjustments, or direct financial compensation from private or governmental entities.

We estimate that these new provisions would encourage abandonment proceedings involving 21,000 miles of line, more than ten percent of the nation's total trackage. However, the loss of these lines would result in only about 100,000 less carloads per year for the railroads, less than one half of one percent of the national total. Clearly, shippers in these areas would benefit from more trucking service to meet their needs. Our proposals address this issue, which I will now discuss.

At the present time, entry to a new market (both as to routes and commodities which may be carried) requires operating authority from the ICC. In the case of common carriers, this takes the form of a certificate of public convenience and necessity. This requirement has frequently been administered restrictively, so that carriers who can demonstrate fitness to perform are still sometimes excluded from a market. Such restrictions as availability of service has frequently had the affect of encouraging larger shippers to use their own trucks or contract carriers, even though these may be more expensive than common carrier trucks. The relative decline in common carriage is evidence of this fact. The commodity and routing restrictions on the common carriers appear to have kept their costs higher than seems desirable.

In addition to these considerations, modernization of the regulatory requirements over entry seems desirable in light of our bill's provisions for rationalizing rail abandonments. Rail abandonment should cause some increases in the demand for trucking in areas where rail service is reduced. However, it would appear that unless entry considerations are refocused shippers in these areas may not receive adequate substitute service in a timely fashion. Revised entry considerations in trucking and water carriage is also desirable because of rate flexibility granted the carriers. Also, any tendency for existing carriers to use ratemaking freedom to exploit a strong market position could be checked by a potential for new entry. Further, as below-cost rail rates rise, there may be an increased demand for substitute truck and barge service for these commodities.

The issue of revising motor carrier entry regulation has been much discussed in the press and elsewhere in the course of the development of these proposals. Proposals range all the way from complete elimination of regulation in this area--the policy of free entry--to those which would make no change at all. I want to make it clear that we do not endorse any proposals for total deregulation in this area. Rather, we believe that meaningful change can be accomplished by changing the focus and emphasis of the present regulatory system to that of meeting shipper needs. Our proposals have been developed in this light.

Our proposal seeks to revise entry restrictions within the present certification process. The law now requires an ICC certificate or permit to enter new markets. This is retained as is the present statutory requirement that an applicant be "fit, willing and able" to perform common or contract carriage. In addition, the requirement that an applicant meet the basic standard of "public convenience and necessity" is retained. Thus, an applicant for a certificate will still be required to show that there is an ascertainable need for the proposed service.

Although the present law makes clear that the public convenience and necessity must be served, it unfortunately does not make clear how to determine it. Our proposal explicitly identifies what we believe is the true measure of public convenience and necessity for 1971 and the years ahead. Our revisions have the effect of modifying the present criteria in the following manner: We would preclude the denial of entry based on the adverse effect on the traffic of a competing carrier, subject to one important qualification. The Commission may deny an application for entry on grounds of injury to an existing carrier if a protestant carrier can demonstrate that, as a result of certification, total quality and quantity of service in the market to be served would be reduced.

Similarly, our proposal would preclude the Commission from imposing certain restrictions (such as on commodities carried, points served, and equipment or routes used) in grants of new entry on the grounds that such restriction is necessary to prevent adverse effect on a competing carrier unless such adverse effect would impair the overall quantity or quality of service in the market to be served. In determining whether such an impairment occurred, the bill requires the ICC to consider specifically the effect of a change upon originating and terminating markets and upon the adequacy of short-haul service to, from, or between points intermediate to an originating or terminating market.

These are the major features of our approach to regulatory revision, Mr. Chairman. Our proposal contains some additional provisions which for reasons of time I will not discuss at this time. I have gone through the major points in some detail so that the Committee would have some insight into the specific application of the basic policy principles, which I set forth at the outset of my statement.

I would now like to turn to the regulatory provisions contained in S. 2362. As I have noted, a number of its provisions have much in common with those proposed in S. 2481 and S. 2482. Others, however, do not. For example, the provisions of S. 2362 concerning railroad abandonments, are conceptually very similar to our own. Overall, however, we feel our proposal is more complete in this regard, and consequently we favor our abandonment procedures.

On the other hand, the provision which extends regulation over the motor carrier transportation of a number of agricultural commodities both as to rates and entry is at odds with our policy objectives. Aside from this consideration, the rationale for selecting and singling out these particular areas in the agricultural sector for further regulation is not wholly clear. While we are fully cognizant and appreciative of the difficulties which Congress has had in years past, most recently in the

Transportation Act of 1958, in defining the scope and character of the exemption in this area, nevertheless the choice seems somewhat arbitrary. The motor carrier transportation of these commodities have generally been free of economic regulation for over 35 years. We know of no evidence to date that shows that any economic interest, whether it be carrier or shipper, would be better served by more regulation in this area. In this connection, it should be pointed out that studies that have been done by the Department of Agriculture have shown that the aggregate rate level tends to increase following the imposition of full economic regulation in the transportation of previously exempt agricultural commodities. We therefore believe that before additional regulation is seriously considered in this area, Congress should be fully apprised of the views of the shippers of these commodities.

Another change proposed in S. 2362 would require the publication of rates on the water carrier transportation of commodities in bulk. This Committee and the Congress have recently dealt with this issue in the context of the so-called mixing rule legislation enacted in the last Congress. Therefore, I will not discuss this point in any length. As you know, that legislation directed the Secretary of Transportation to do an extensive study of all relevant issues involved in the transportation of bulk commodities by all modes of surface transportation and to report back to Congress in December 1972 with recommendations for further action, including additional necessary legislation. We believe that any decision on this item should be postponed for further consideration upon the completion of this report.

The third regulatory feature of S. 2362 is somewhat unclear. It would seem to provide the Commission with both the direction and the authority to develop standards, criteria, etc., to insure the carriers' rate structure was generating adequate revenue. We gather that this provision is designed to set forth explicitly in statutory form a set of procedures for the Commission to adopt and apply in the processing of across-the-board general increases in rates. Assuming there is, in fact, a legal necessity for this provision, its basic effect would be to legislate a policy favoring across-the-board general rate increases as the most appropriate method for improving the surface transportation industry's revenue and income position. We have previously stated to the ICC, most recently in Ex Parte 267, that we do not regard general rate increases as either a sound or useful device for meeting carrier revenue needs. Rather, it is our position that a fundamental and meaningful reform must be made of the rate structure itself, with detailed attention being given to rates on particular commodities or transportation services. The rate provisions in our legislative proposal would permit this process to go forward at an accelerated pace, as we believe it should. In this event, there would be less need for recourse to general rate increases and, thus, little or no need for this provision of the industry bill.

In addition to these regulatory features, S. 2362 contains several proposals to provide financial assistance or tax relief to surface transportation carriers. One restores the investment tax credit for transportation companies. As the Committee is aware, a major part of the President's economic program calls for the enactment of the Job Development Credit.

This proposal has passed the House of Representatives and is now under consideration in the Senate. The Job Development Credit, of course, covers all sectors of the economy and is not limited to transportation, but otherwise generally conforms to this provision of S. 2362.

Another proposal of S. 2362 would deal in a number of respects with a continuing practice of many State and local governments in assessing and taxing common carrier property in a discriminatory manner. The Senate, of course, passed legislation in the last Congress to accomplish this same objective. The Department supported that proposal then, as we do now, and we have included a similar provision as Title II to the Department's Transportation Assistance Act. While there are a few technical differences between our approach to this subject and that contained in S. 2362, both proposals are directed towards the same objective, and we would hope that Congress would promptly act on this measure.

There are three other provisions of S. 2362 which we must oppose. These concern changes in the allocation of highway grade crossing funds, a new program for loans to surface transportation carriers, and an expansion of the provision in the tax laws concerning rapid amortization of carrier equipment. As to highway grade crossing funding, Title IV of S. 2362 would require States to use at least 5 percent of their Federally matched ABC funds for rail crossing projects and extending the permissible use of these funds to crossings not on the Federal-aid road system. We have made an extensive analysis of the highway grade crossing problem and that report will soon be submitted to the Congress and our final recommendation on this subject will be submitted to the Congress on July 1, 1972, as required by the Highway Safety Act of 1970. In addition, we are making a special effort to allocate substantial funds to this problem under present law. For these reasons, we feel this proposal should not be favorably considered at this time.

We also must oppose the provisions of S. 2362 providing for amendments to the Internal Revenue Code by permitting a five-year rapid amortization of all transportation equipment. Provisions of the Tax Reform Act of 1969 apply only to railroad equipment and rolling stock at the present time, and, commencing in 1972, will apply only to railroad rolling stock determined, under Treasury regulations, to be in "short supply". While we are not recommending repeal of this special amortization provision for railroad rolling stock due to the industry's critical financial position and its equally critical equipment problems, we feel that no persuasive case has been made for extending this form of investment incentive to the acquisition of transportation equipment for other modes. In contrast to the railroads, these modes, in the aggregate, are relatively well off economically. In addition, the enactment of our proposed Transportation Regulatory Modernization Act and the Job Development Credit, the recent adoption of new depreciation guidelines by the Treasury, and other aspects of the Administration's present economic program should obviate the necessity for the adoption of further incentives.

Essentially, the same response also must be given for the proposal set forth in Title 1 of S. 2362. In essence this Title would provide for up to a $5 billion authorization for direct loan or loan guarantees, or a mixture of both, to individual carriers unable to raise sufficient funds at reasonable rates in the private money market. Although differing considerably in detail, the program authorized by Title 1 very much resembles the old Reconstruction Finance Corporation which provided assistance of this sort to transportation companies and other businesses during the depression years. It is granted that many segments of the surface transportation industry will require additional capital to meet both present and future demands and that many carriers are presently experiencing considerable difficulty in raising needed funds at reasonable rates. However, our analysis has tended to indicate the problem is not a shortage of available funds in the private capital market, but rather that the surface transportation industry simply does not offer an attractive enough inducement in the form of a high rate of return to attract this capital. Given some assurance that the surface transportation industry has long-term viable economic prospects and can be operated in a modern businesslike manner, we feel that the sufficient capital will be forthcoming.

We believe that the Federal government has taken and has proposed many meaningful measures which will provide significant financial assistance to the surface transportation industry, especially to the railroads, the most depressed segment of that industry. In addition to our proposals contained in the Transportation Regulatory Modernization Act and the Transportation Assistance Act, assistance has been provided through the Emergency Rail Services Act of 1970, the Rail Passenger Service Act of 1970, the Department's R&D program for safety and high speed ground transportation, as well as through investment tax credit provisions and guidelines for accelerated depreciation, which I referred to earlier. Those programs already implemented coupled with our current proposals will substantially assist in creating the kind of financial environment necessary for a healthy, privately-owned surface transportation industry.

Before concluding, Mr. Chairman, I would like to touch upon briefly two other features of our Transportation Assistance Act. I have previously discussed its provision prohibiting discriminatory State and local taxation of transportation property. In addition, this bill creates a Federal Railroad Equipment Obligation Insurance Fund which would be used by the Secretary as a revolving fund for the purpose of insuring obligations issued by railroads to finance the acquisition of rolling stock. The aggregate amount of unpaid equipment obligations outstanding at any one time under our proposal could be as high as $3 billion.

Secondly, our proposal calls upon the Secretary to conduct research and development into the design of a national rolling stock system within two years from enactment of the bill. At the end of the two-year period, the Secretary would be required to report to Congress his recommendations respecting the organization, development, funding, and implementation of any national system which he may design as a result of this research and development effort. The Secretary may also determine the costs and benefits, and make recommendations toward the installation of rolling stock scheduling and control systems on individual railroads which are compatible with any national system that may be designed. During this two-year period, he would also be required to begin demonstrations to test the feasibility of, and benefits from, the installation of rolling stock scheduling and control systems in railroad yards and terminals. We have requested an authorization of $35 million to carry out these provisions.

These three proposals of our Transportation Assistance Act are designed to address three critical problems facing the railroad industry: (1) the inability to secure on reasonable terms an adequate supply of freight cars and other rolling stock; (2) the lack of a modern national system for controlling the distribution and utilization of freight cars; and (3) the continued existence of discriminating and unfair taxes on the property of railroads and other surface common carriers by State and local governments.

Adoption of these proposals should make a substantial contribution to moving the railroad industry toward profitable operation and yet would keep to a minimum the involvement of Federal funds and the exercise of Federal control in the direction and operation of our railroad system.

In conclusion, our proposals represent a very careful analysis of the problems of the surface transportation industry and a weighing of the issues. As I indicated earlier, many of our proposals are similar to those in S. 2362 while others differ. We believe these common features provide a broad and sound base for dealing with these problems and deserve timely and thorough hearings leading to prompt and favorable action by the Congress.

Mr. Chairman, that completes my prepared statement. I will be happy to answer any questions the Committee may have.