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Mr. Chairman and members of the Subcommittee, I am pleased to be here today to talk about the Staggers Rail Act of 1980. Before I comment on the specific issues you have asked me to discuss, I would like to present our general views of the effects of the Act, and of the progress toward meeting the goals of the legislation.

The principal purpose of the Staggers Act was to reduce or eliminate the burden on commerce imposed by regulation and to permit competitive forces to work wherever possible for the benefit of railroads and shippers. Combined with the subsequent actions by the ICC to implement the legislation, the Staggers Act has allowed railroads to respond to shippers' needs and market conditions by adjusting rates and tailoring services to attract and retain traffic. Shippers' transportation options have increased, and many railroads have reduced rates or offered new types of service to meet competition, balance traffic flows, and hold or boost market share.

Railroads and shippers have been particularly active in negotiating rate and service contracts, which were explicitly authorized by the Staggers Act. As of June 30, 1982, 1,400 contracts had been filed with the ICC; now, one year later, there are over 8,000 contracts on file. The contracts cover almost all commodities handled by railroads. They offer volume incentives, guaranteed car supply or other special services, with terms lasting from less than one month up to 20 or more years.

In those commodity areas already exempt from regulation, the railroads have moved aggressively to build traffic. Railroads' piggyback business, the major service exempted since the Staggers Act was passed, has grown to record levels. Despite a reduction in overall rail traffic between 1981 and 1982, piggyback carloadings rose significantly.

Prior to 1980, rail/barge transportation of export grain was almost non-existent. Provisions in the Staggers Act increasing rate flexibility and encouraging independent ratemaking have contributed to the introduction of new single-line rates for trainloads of export grain to river ports, for barge movement to the Gulf. The new combinations of low rail and barge rates have made these intermodal shipments a more attractive option for many shippers.

In most markets, railroads have had to increase their rates to reflect increases in the prices railroads pay for fuel, materials, and labor. Since passage of the Act, the Association of American Railroad's Index of Materials, Wage Rates and Supplements has gone up 21 percent, while overall rail rates, as estimated by the Bureau of Labor Statistics, have increased only 19 percent.

In monitoring the effects of the Staggers Act, we have paid particular attention to bulk commodities, including coal. In the years since the legislation was passed, rail tariff rates for unit train coal movements in the West have gone up more quickly than in the East and more quickly than rail rates in general. However, the calculations do not include rates set in long-term contracts negotiated between shippers and railroads. Nationwide, coal rates are only 2.5 cents per ton mile hauled -- the lowest for any major commodity group. Western rates per ton mile are lower still, although the coal is hauled much farther.

The economy has been extremely weak in the years since passage of the Staggers Act, and railroads have not been immune to the recession. I believe the Act was a major factor in the railroads' ability to weather the storm. While their earnings are still not sufficient by standard investment criteria, there have been no business failures such as those that occurred in the last decade. Notwithstanding these encouraging signs, there is still a large gap between the 3.98 percent return earned by the railroad industry in 1981 -- down slightly from 1980's record level of 4.13 percent -- and the 16.5 percent established by the ICC as an adequate rate of return.

Since the Staggers Act, some railroads have cancelled a large number of joint rates and reciprocal switching agreements with other carriers. The ICC has approved most of these, based not only on the Staggers Act, but also on a reinterpretation of other joint rate provisions of the Interstate Commerce Act. Shippers have expressed concern that the loss of an equalized rate structure means they have fewer routing choices.

We believe a railroad should be allowed to set rates independently for its own portion of a movement, as long as such actions do not detract from a competitive, efficient transportation system. Historically, some railroads did not receive revenue divisions sufficient to recover their portion of the costs of joint line rail movements, and cumbersome regulation of joint rate divisions prevented them from rectifying such situations. In many cases, the same joint rate applied over a variety of rail routings between two points, regardless of the cost associated with any route. This rate structure did not encourage the use of the most efficient routes, by the shipper or the railroad. Certainly, some railroads have been aggressive in changing their rate structure. But, the industry can be expected to maintain mutually advantageous joint rates.

Another of the Staggers Act changes which has had a major impact on the industry and its shippers is the expansion of the ICC's power to exempt traffic from regulation if it judges that regulation is not necessary to protect shippers or carry out the national transportation policy or the traffic is of limited scope. Although piggyback traffic is the only major commodity group to be exempted since the Staggers Act, the Commission has recently announced two additional exemption decisions, to be effective later this year. Export coal moved by rail to U.S. ports is to be exempt in September, and rates on railroad boxcar traffic will be deregulated in November.

DOT supports the exemption of export coal, and has filed extensive comments in the proceeding. We believe that there is ample competition in the export market. Large coal producers and brokers control a preponderance of the export traffic, and can market coal from mines on more than one railroad. The ICC noted in its decision that the eight largest producers and brokers accounted for two-thirds of the Chessie System's export traffic in 1981, and over 80 percent of the Norfolk and Western's. Moreover, competition from world producers is intense, and railroads could suffer the loss of their traffic if the total delivered price of U.S. coal is too high.

With weak world demand in the past year, we have seen this hypothesis borne out. Several railroads have recently offered attractive contract terms or reductions in tariff rates for export coal, in response to market circumstances and shippers' needs. In addition, railroads have not taken any of the increases above inflation which the Staggers Act allows, nor did they apply the most recent inflation-based increase to export coal traffic.

The Commission has also proposed domestic coal rate guidelines for traffic over which a railroad has market dominance. These guidelines would be based on the principle that no shipper should pay more than stand-alone costs. Comments in this proceeding are due on July 28, and the Department will submit a formal filing at that time. We generally support the ICC's proposal, provided that implementation is based on thoroughly researched and carefully deliberated techniques for its application.

That concludes my testimony. I would be happy to answer any questions.