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Welcoming Remarks by Joni Casey 1988-1989 TRF Program Vice President

I am pleased to welcome you to the 31st Annual TRF Forum. TRF has been around for 31 years. Transportation has developed remarkably during that time, and so has TRF. The program this year demonstrates the international nature of transportation today. And a further reflection of this international emphasis is the fact that the 1990 TRF Annual Forum will be co-sponsored by the Canadian TRF, the Australasian TRF, and the World Conference on Transportation Research. For some years, TRF followed a theme at its annual forum. This year, we have returned to a theme, after not having a theme for several years. The theme is the same as the title of one of our two mini-conferences during this annual TRF forum, "International Transportation from a Mid-Atlantic Perspective". Jim Snitzler is largely responsible for developing this mini-conference. Thanks Jim! And now, Tom Harvey, President of TRF, will introduce our keynote speaker. Tom.

Keynote Address by Elaine L. Chao Deputy Secretary U.S. Department of Transportation

Tom Harvey: It is my pleasure to introduce to you our keynote speaker, Ms. Elaine Chao, Deputy Director of the United States Department of Transportation. In that capacity, Elaine is the chief executive officer of a large federal agency with diverse operations and broad responsibilities. She was a White House Fellow. She has had two stints with the banking industry. She has a Harvard MBA and she has done graduate work at MIT. Most recently, before her current position, she was Chairman of the Federal Maritime Commission. I give you now, Elaine Chow.

Elaine Chow: Thank you, Tom, for that introduction. I am reminded that we don't always see ourselves as others see us. From the introduction, it appears that I am a person with a career in the public sector with stints in the private sector. I am accustomed to thinking of myself as having a career in the private sector with stints in the public sector.

I have reviewed the whole program of your TRF Annual Forum here at Williamsburg, and I am impressed with the breadth of coverage of topics, especially topics on international transportation. The importance of international transportation has grown dramatically in recent years. International transportation, as well as domestic transportation, is vital to the economic competitiveness of the United States in international commerce. Yet, the sustained effort for capital investment in transportation infrastructure has declined, until now it is only one percent of GNP. And, it was a smaller percentage of GNP in 1970 than it was in 1960. Yet vehicle miles, already large, are expected to grow dramatically by the year 2020.

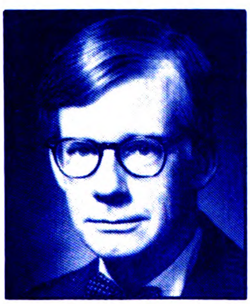
Congestion is expected to increase. That is one of the reasons that the United States Department of Transportation is committed to improve the state of American transportation and to prepare it for the 21st century. We want to be sure that no segment of the population is left out of the process of defining our transportation infrastructure needs. To assure that participation, the Department of Transportation is holding many public hearings -- town meetings. In undertaking the task of setting a national transportation policy, emphasis is upon coordination and integration among the modes. As you know, January 2nd, 1990, is the deadline Secretary Skinner has set for reporting that national transportation policy to the public. We at the Department of Transportation recognize that January 2nd will be only a starting point. We will move forward from there to implement the policy. We are determined that the National Transportation Policy announced on January 2nd will not be just another report that sits on a shelf.

A national transportation policy will help the country as a trading nation. We are promoting a reduction in subsidies, but we realize that some other countries have greater subsidies in transportation than we have in the United States.

The current deteriorated condition of the nation's transportation network is perhaps the most important deterrent to U.S. international competitiveness. There are two major impediments to transportation in the United States: regulatory interference and scarcity of funding. We at DOT are addressing both constraints. For example, UMTA has an operating goal to reduce subsidies and to promote public-private partnerships for providing mass transit. One way we are doing that is to use DOT seed money for developing experimental mass transit services. Currently, there are many restrictions on the expenditure of federal transportation money. We are convinced that federal dollars get stretched further if they are spent locally. The ultimate goal is to allow local systems to largely decide their own transportation programs. In this regard, DOT sees a natural partnership between the public and private sectors.

Transportation systems provide vitality and growth to the economy. In the words of one of my favorite people, Yogi Bara, "We are faced with insurmountable opportunities." Thank you very much for the privilege of addressing you at this important transportation research forum.

Wednesday Luncheon Speech by Charles N. Marshall, Senior Vice President of Marketing and Sales at the Consolidated Rail Corporation (Conrail)



Jim Blaze, Vice President of Corporate Planning at Conrail, introduced Mr. Marshall by noting that their offices at Conrail share a common wall. Mr. Marshall worked for a railroad before earning a law degree. He has had many years experience in transportation and law.

Mr. Marshall: "Global Marketplace" is one of those phrases that, at least in private, makes me want to go turn the channel to something else. We have all heard a lot about it, and I don't pretend to understand it. But, before lunch, I went for a walk outside this hotel building, and I saw a storm drain. It said on it, "made in India". It is a casting weighing 60 to 100 pounds. It is remarkable that somebody can make it half way around the world, ship it here, and put it in the ground as economically as it can be made here in the United States. That is something of an eye opener. The world is getting smaller. Things are coming from surprising places, and circumstances are always changing. That is one of the problems -- one of the opportunities -- that we face in the railroad business.

There are some things that strongly effect the way we do business. The obvious, big one is the free trade agreement with Canada. None of us know quite how that is going to work. There is a lot of interest in both countries in being able to utilize advantages in the other country and ship across the border. The European Economic Community is coming together. It is fairly clear that it will weld Europe into a more cohesive marketplace, and that European industry will become more competitive within the EEC. It is not clear whether European industry will become more competitive outside the EEC, because of the pervasive European tendency to support social welfare legislation. That will run up their costs. It is a source of stress between the U.K. and the continental countries of the EEC. It remains to be seen whether European manufacturers will play a more prominent role, or a less prominent role, in American markets and in third world markets.

There is an increase in international investment going on. Perhaps the most important influence on international trade are currency relationships. These relationships often are far more influential in determining who sells what where than economic efficiency, or initiative, or anything else we can think of. The fact that currencies play such an important role in such industries as autos and steel suggest to me that international trade in these industries will be far more volatile in the future than they have been in the past. Something that moves between two countries today may not move tomorrow, because buyers are going to look around for the best price, and sources of supply will continue to shift. We see that along the Pacific Rim, as manufacturing costs in Japan, and currency relationships with Japan, have been forcing labor intensive industries south, to Taiwan and Singapore.

Consumer goods come increasingly from abroad. America's strength in bulk commodities will continue, particularly in coal and grain. Labor disturbances here usually do not interfere with delivery of the product.

The volatility of traffic patterns requires a great deal of sophistication by those who handle commodities that move in international trade. Volatility of traffic patterns means that information is becoming more valuable. Ultimately, people who succeed will be those who have a better view of where commodities are going to go, who know were a dollar can be made.

What is the role of a railroad? There are some things we do very well, and some things we don't do very well. We need to take account of these things in regard to flows of international traffic. The Panama Canal takes three weeks longer than alternative routes. That time difference is important for some commodities, such as dresses, where consumer tastes sometimes change quickly. That additional time can mean the difference between meeting or missing a market. We have taken 30 percent of our traffic out of the Panama Canal, and that accomplishment is very encouraging. There is still a lot of Panama Canal traffic left, and I view that as an opportunity for the railroads.

The concentration of freight at load centers at fewer ports makes possible the use of trainloads of container traffic, such as double stack, that move well by rail. Traffic that is diffused among several ports, at smaller than train-load quantities, gives truck transportation an advantage in distribution. Railroads are weak regarding distances under 500 miles and regarding small volumes.

Compared to the national rail systems of other countries, competition among railroads in the United States causes the U.S. rail industry to be more innovative in handling new kinds of business than the rail industry in other counties. Railroads work together to provide transcontinental service. Sometimes they achieve this by themselves, and sometimes with the help of outside agents, such as steamship lines.

Where do we go from here? Is there a single pattern that will prevail in world markets that all of us need to accept and utilize? It seems that the market is very fragmented: the players are fragmented and the forms of commercial transactions are fragmented. Look at commodities produced abroad for consumption in this country. First there is the guy who makes it. Then there are the wholesalers, trading companies, national banks, freight forwarders, steamship lines, ports, and finally, railroads. There is a lot of slippage in the linkage of that chain. It is not clear who will end up controlling the entire transportation transaction. So far, the steamship lines are ahead. They have done a better job than anyone else in gathering up freight abroad and distributing it in this country. I am not sure railroads can do this as naturally as steamship lines. That is one reason we have embraced our relationships with steamship lines. The best way to tackle this problem is to try some carefully controlled experiments, and discard the things that don't work.

We are going to shepherd some imported bulk commodities all the way from producers to consumers, including the truck portion of the transportation. We will sell the through movement, and see whether the participants earn their keep. The task requires the willingness to stick with the experiment to see if it works, and the equally important willingness to quit and try something else, when the experiment does not work.

In conclusion, let me restate that I see the entire transportation industry groping to handle these highly complex, highly diffused transactions that shift from month to month and season to season as currency relationships, and other highly fluid conditions, shift. It offers stimulating challenges to railroads and others in the transportation business to analyze and adapt to these many changing circumstances.

Thursday Luncheon Speech by Peter J. Finnerty Vice President of Public Affairs at Sea-Land Services and Vice President of Maritime Affairs at CSX Corporation

Joni Casey: Mr. Finnerty is truly a multimodal transporter. He has responsibility to promote policy formation within Congress and the Administration, as well as for interaction with foreign governments and international organizations. His spare time is devoted to many groups including the American Institute of Merchant Shipping, the Coalition of Service Industries, the United States Council for International Business, and the United States Coast Guard Foundation. He has an M.B.A. degree from Wharton and a law degree from Georgetown University. He holds a Coast Guard License as a Third Mate. Please join me in greeting Peter Finnerty.

Mr. Finnerty: Joni and I had a very interesting time together when we first met, learning about what is going on in Europe and about the evolution of a single market-place over there. I am sure that most, if not all of you, have heard a lot about it. It is said that there is more discussion about it in the United States than in Europe itself. I am going to focus upon trucking developments within the European Community. We were working on this problem yesterday in Washington, D.C.

Sea-Land has provided container transportation to Europe since 1966. As a pioneer of container technology, both our company and the European economy have grown and changed dramatically in the more than two decades since then. Europe is now on the brink of unprecedented change, and within a relatively few years. The year 1992 is the date discussed most, but that date is more a philosophical date than a legal deadline. A great deal is going to happen by that date, and that is not far from now.

Sea-Land has closely monitored the developments in Europe, due to our extensive operations there. Many of the 64 countries we now serve are in Europe. Our surface transport services now include ocean shipping, road, rail and inland water. Our geographic scope includes all of Europe, Asia, the Middle East, the Indian Subcontinent, North America, the Caribbean, and Central

America. The fleet we operate includes 60 container ships that serve 74 seaports. We operate a fleet of about 116,000 containers and about 48,000 chassis.

Our research shows that Europe has excellent prospects for economic growth, especially in transportation services. The 12 nations forming the common market constitute the world's single largest market, at 320 million people. The EC is an economic alliance moving toward a goal of a single market, with few internal barriers to trade and very exciting opportunities to create added economic activity. Europe's leaders want Europe's transport industry to become more competitive, much more efficient, and able to offer quicker service to consumers. The European Commission is strongly encouraging freight transport that uses combinations of road-rail, and road-inland waterway modes. They are doing it for several reasons: improved use of the existing infrastructure (which needs to be improved); great opportunities to conserve energy; and environmental protection. Protecting the environment is an important factor in Europe. Environmental policies include several different approaches, including a ban on road transport on weekends, in many of these countries, and inducing transfers to state-owned railroads or private barges, and restricting the operations of large trucks and containers, in many areas.

These changes effect not only the 12 countries in the European Community, but also Finland, Norway, Sweden, Switzerland and Yugoslavia (but not Austria). Overall, the coming liberalizations and reduction of barriers are expected to produce a substantial and sustained growth in the volume of intra-EC trade. A recent U.S. Commerce Department study indicated that trucks now carry more than half of all intra-community trade measured by volume, and considerably more than half measured by value. Those are very impressive figures considering that the European market is estimated at $4 trillion, that U.S. merchandise exports to the Community reached $75 billion in 1980, and that sales by U.S. companies in Europe totalled $550 billion last year. That is a volume three times as much as U.S. trade with Canada and four times as much as U.S. trade with Japan.

Trucking's share of the transportation market may increase substantially, once the EC eliminates border barriers that impede the flow of land transport. Next year, fiscal frontiers between France, West Germany, and the Benelux Countries (Belgium, the Netherlands, and Luxembourg) will be eliminated, and just this week the finance ministers of the EC agreed to eliminate the collection and the paperwork for the value added tax ("VAT") at each of the borders of the 12 EC countries. That will set the stage for the elimination of the tremendous delays at border crossings. This will be a key step toward creation of a wide distribution network and unleashing the competitive market forces that have transformed the transportation industry here in the United States.

Road haulage in Europe is within one of two categories: cross-border and cabotage. Cross-border transportation, as the name implies, is transportation from one country to another. Cabotage transportation, on the other hand, is transportation that occurs within each of the twelve countries. It is cabotage trucking that generated great controversy this year. Although the European Community's ostensible goal is to further liberalize the European road haulage market, proposed regulations have included controversial ownership requirements to exclude U.S. and other foreign EC interests. While the language has been quite ambiguous, it appears quite clear that many EC nations intend to limit non-European investment in cabotage trucking to a maximum of 49 percent. It has also been noted that a similar rule might be attempted in cross-border trucking, as well. It should be emphasized that an EC rule applies across the board to all 12 EC member countries. An EC rule is not something that a member country can accept or reject. What the EC is working on is a mandatory set of rules that would apply within the entire community.

In contrast, as you probably know, the United States imposes no barriers to European investment and operation of trucking in this country. Numerous European and other non-U.S. interests are actively engaged in road transport activities here in the United States. If Europe persists in imposing this new ownership requirement in the 12 countries of the EC, it would require U.S. trucking companies that have already established themselves within the Community to divest their majority holdings, while new entrants from the United States would be limited to that minority position.

The draft regulation on trucking, made available to the United States only this year, was dated 27 November 1985. It replaced a draft first dated 1982, and it was the new, 1985 draft, that contained provisions concerning cabotage. This followed a judgement of the European Court of Justice on 22 May 1985, requiring the Commission to issue rules to apply the principle of freedom to provide national transport services within a reasonable time. In other words, the European Court, interpreting the original Treaty of Confederation of the Community, was pressuring the Council to open cabotage road haulage to competition. Now, here we are, four years later, and new rules opening up cabotage road haulage still have not been issued.

Freedom to provide services entails removing all restrictions against a person providing services on the basis of his or her nationality or the fact that he or she is established in a different EC member state. The non-discrimination principle is one of the fundamental principles of European Community law. In 1985, as the Commission began to comply with the Court's order to open up cabotage trucking, the Commission stated that member state's domestic markets should "not be disturbed" as a result of non-Community operations. It went on to say that the cabotage markets should therefore be protected from competition from carriers formerly established in an EC member state but belonging to a third country, such as the United States. Protection, it said, could be insured by requiring a genuine link between the carrier and a member state with the genuine link defined so nationals or companies of non-Community countries are not able to gain entitlement to engage in cabotage road haulage.

EC officials seek to explain away this protectionist approach by claiming that it actually is aimed at Eastern Europe. They suggest the possibility of waivers to United States carriers as exceptions to these new rules. Such waivers might be difficult to obtain, though, as a single market develops and expands. I might also say that it is subject to an enormous amount of back-room politics.

As we consider the impact of EC proposals, it is helpful to consider the extensive reach of such a rule. All container traffic between a seaport and points within the same country would be affected. Trucking between an airport and points within the same country would be affected. Delivery and distribution services within the same country would be affected. This artificial and unnecessary twist in the EC's liberalization, would result in higher costs and less efficient service by future transport systems. Although the target date of January 1, 1987, for the 1985 proposal came and passed without action, new drafts were circulated, most recently last week.

The French, currently heading the Council for six months, proposed a paper that does not contain the "genuine link" language of earlier drafts. However, they have not abandoned the concept of requiring EC majority ownership. Their latest draft contemplates only partial liberalization for this aspect of trucking. Therefore, the French included a declaration that would be inserted in the minutes of the Council meeting, stating the necessity of retaining the ownership clause in any subsequent cabotage proposal dealing with road haulage liberalization. So, if you will, it is a slight of hand. The stated French position pretends to be a compromise between the 1985 and the unrestricted, Spanish proposal of early this year. But, the French draft calls for a complex transitional system of quantitative quotas and authorizations for cabotage trucking that, naturally, would be controlled by the government similar to those being eliminated at the present time for cross-border trucking.

The duration of the so-called transition period remains unknown. It appears that the French and other EC countries seeking protection have repackaged their goals in a new cover to buy time and defer change. The new paper may be taken up at the October 16th meeting of European Transport Ministers -- next Monday. We Americans are not the only ones frustrated by the slow pace in this area of EC transport policy. The largest Dutch haulage association -- and the Dutch are among the largest truck haulers in Europe -- has repeated its threat to sue the Council in the European Court of Justice in Luxembourg unless progress is made on liberalizing cabotage trucking by the end of this year.

Member states, such as Spain and Ireland, whose domestic transport markets are relatively small, favor rapid liberalization in order to gain access to other, more valuable transport markets within the EC. Other countries, including France and West Germany, are anxious to protect their own, more extensive transport markets, and therefore they prefer going much slower. This basic difference has effectively blocked any real progress toward liberalization.

EC Commissioner for Transport, Mr. Van Murth, head of Directorate Number Seven, the Transport Directorate, has informed the Council that it must adopt a cabotage proposal within a year, or the Commission itself will lodge an action with the European Court of Justice. For its part, the United States government is to be commended for its active opposition to the EC ownership restrictions. It has stressed U.S. concerns to Commissioner Van Murth during his Washington visit on September 21st, and Jeff Shane, the Assistant Secretary of the United States Department of Transportation for Policy and International Affairs is over there this week to emphasize that point, among others, to the Europeans.

The U.S. government also raised the matter at the O.E.C.D. meeting in Paris on October 9-11, and will do so again at the U.S.-European sub-cabinet-level meetings tomorrow in Washington, D.C. Failure of the Council to adopt a liberal cabotage measure remains a glaring deficiency in the eyes of many proponents of an EC single market. If the Commission, or the Dutch truckers, sue the Council in the European Court of Justice, the Court might decide that the cabotage provisions of the EC treaty have direct effect. The Court, thus, could rule that the total liberalization of cabotage take place without being subject to any prior Council regulations. Such a possibility of the Court, taking matters out of the Council's hands, is likely to pressure the Council to act soon.

I suggest that those who are interested in improving transportation nationally, and internationally, should continue to monitor carefully the action or inaction in Brussels. The outcome bears directly upon the economic health of a large portion of the free world. Hopefully, Europe will discard government bureaucracy, and allow market forces and private sector initiatives to breath new life into its single market economy. If they refuse, their 320 million consumers will be the losers. Thank you for your attention.