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BEFORE THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEE ON SURFACE TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES
REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS OF PROPERTY
JUNE 10, 1981

Mr. Chairman and Members of the Committee:

Less than a year ago today, the Motor Carrier Act of 1980 was signed into law. Since then, the Interstate Commerce Commission has conducted an extensive series of rulemaking proceedings to implement the new Act's provisions. Implementation is ongoing, and it will be some time yet before we can expect either to see the full effects of motor carrier reform or to finally measure those effects. Moreover, the recent economic recession makes it even more difficult to discern the specific effects of reform. Despite these limitations, we do believe the time is right to begin the process of evaluation, and the Committee is to be commended for holding these oversight hearings. There are a number of points that we would like to make today.

First, Mr. Chairman, I want to emphasize that this Administration has reviewed the substantial body of evidence used in last year's Congressional debates to support reduced regulation of the trucking industry. We believe that evidence is sound. Although there is not yet a great deal of evidence concerning the effect of the new law, what we have seen is encouraging and consistent with previous findings. Accordingly, we have provided vigorous support for pro-competitive reform of the motor carrier industry through comments we have filed in proceedings before the Interstate Commerce Commission. Further, we believe the Commission has been implementing the Act in accord with the pro-competitive intent

expressed by the Congress last year -- and we will continue to urge the Commission to do so.

I would also like to note at the outset that our position is very much a part of the President's efforts to reduce regulation and increase efficiency throughout the economy. And, in the transportation area, these efforts continue a bipartisan reform movement that began several years ago and for which you, Mr. Chairman, and this Committee deserve much credit.

OPPORTUNITIES FOR TRUCKING COMPANIES

Let me begin our review of the first year under the Motor Carrier Act by outlining what we believe to be important benefits of this Act for the trucking industry, or at least for those carriers that are well managed and willing to adapt to a new environment. It is clear to us that, on its face, the Act has provided substantial relief to carriers from the sort of burdensome government regulation that this Administration squarely opposes.

Under the new regulatory environment, carriers can pursue more comprehensive market strategies and implement them more quickly than used to be the case. With reduced paperwork and regulatory lag, the uncertainty and delay facing a carrier that wants to be innovative have been substantially reduced. With enhanced pricing flexibility, a comprehensive strategy can include the provision of new pricing and service options for shippers. With eased entry, the cost of looking for new business beyond routes and authorities already held has been substantially reduced. As routing, commodity and other restrictions have been removed, carriers can improve their efficiency, reducing fuel and other costs, enabling them to price their services more attractively. And, I might add that innovative pricing helps regulated carriers compete not only against

other regulated carriers -- good regulated service can also convince a shipper to get out of the private carriage business. In brief, these changes work to the advantage of regulated trucking firms, make the truck fleet more efficient and, in turn, benefit shippers and consumers.

FEARS NOT REALIZED

Before discussing what we do know so far about the impact of regulatory reform over the last year, I want to emphasize that we are quite encouraged by what we have not seen. Chaos, which opponents of deregulation predicted would result from reform, has not occurred. Shippers still send freight by truck to locations all over the United States. "The world's best transportation system", as the trucking industry has often called itself, has continued to provide quality transportation to all types of shippers and to small as well as large communities, even throughout a difficult economic period. And, as I will discuss later, fears expressed last year about the effect of reduced economic regulation on safety have not been realized.

ENTRY

Now let me turn to one of the most important provisions of the Motor Carrier Act, the codification of pro-competitive motor carrier entry standards. We firmly believe that eased entry brings benefits, and not only as a result of new firms entering the industry. Easier entry allows existing carriers to expand the scope of their services by venturing into new geographic markets and by carrying commodities that they previously lacked authority to haul. Even if not one new trucking firm were formed, the benefits to the shipper and the consumer should increase significantly over time as a result of this entry policy.

No longer can a few firms monopolize the traffic between a given

pair of cities, secure in the knowledge that the regulatory system will protect them from other firms that want a piece of the action. The keynote today is competition. If X, Y, and Z companies aren't giving good prices and service to shippers between Chicago and Los Angeles, then innovative businessmen are going to start or expand companies A, B, and C to compete in that market, and the ICC will grant them the right to do so.

Also, reducing artificial barriers to entry into markets where prices are too high, or where the services offered do not meet shippers' needs, will gradually result in more responsive service and pricing. It will take time for this scenario to unfold. But by this time next year we expect to be seeing substantial results.

We expect this not only because of past studies, but because we have already observed significant entry under the new Act. While the number of applications in this last year has continued at roughly the same levels as in immediately preceding years, it appears that these applications are resulting in more comprehensive grants of operating authority. For example, since July 1980 the ICC has granted nationwide authority to more than 30 general commodities common carriers, as well as several common carriers of specific commodities. These grants of complete 48-state authority will enable many carriers to develop more balanced traffic patterns, filling gaps in their operating networks. In addition, preliminary results of one of our studies indicate that regional carriers are also applying for broader geographic coverage than they sought before passage of the Act. Further, nationwide authority is now routinely granted to contract carriers. And, overall both large and small carriers appear to be taking advantage of the less restrictive

and less burdensome entry policies codified by the Act.

PRICE COMPETITION/ANTITRUST IMMUNITY

Let me turn now from entry to pricing -- although as I hope I have and will continue to make clear, the two are closely related. We have already seen the first efforts to achieve rates based more closely on costs. For example, there has been an increase in the number of aggregate tender rates offered. Under such a rate, less-than-truckload shippers pay less for consolidating two or more shipments, reflecting lower handling costs. We have also seen direct price competition develop in several markets, a phenomenon rarely observed in the past.

I should emphasize here that the time lag between new entry and improved economic performance of the motor carrier industry is not the only reason why the ultimate benefits of reform are only beginning to come on line and have not yet been fully achieved. A necessary aspect of comprehensive motor carrier reform -- the abolition of collective ratemaking for single-line rates -- is not yet a reality --nor will it be for some time under existing law.

Antitrust immunity to set single-line rates collectively is scheduled to terminate in 1984. Minor collective ratemaking reforms are already in place. Even these limited procedural reforms have been challenged in the courts by the trucking industry, some segments of which continue to hope that removal of antitrust immunity will never occur.

We think this is most unfortunate, and we believe that carriers which postpone competing in the marketplace in hopes that price fixing will continue indefinitely will slowly but surely find themselves losing business to carriers that do compete on price. Moreover, we believe that carriers engaging in independent pricing now will gain valuable

experience and will gain competitive advantage over those that rely on collective ratemaking until the day comes when single-line rates must be set independently.

Thus, although motor carrier reform is proceeding in an orderly and productive manner, we believe that at least one vitally important task remains to implementing the 1980 Act -- the removal of antitrust immunity for single-line ratemaking. Until such time as rates are set individually by carriers -- as must be done in virtually all other industries -- the full benefits of pro-competitive reform will not be realized.

Before leaving the antitrust immunity issue, I'd like to emphasize that we will be cooperating closely with the Motor Carrier Ratemaking Study Commission once it begins its work. While our policy is clearly pro-competitive, we do intend to provide the Study Commission with the best professional advice possible, as it impartially considers the antitrust immunity issues.

CONTRACT CARRIERS

Let me now make some observations about what has been happening in particular segments of the trucking industry. Contract carriers, relieved of the "rule of eight" burden, no longer have to limit their services to a few shippers. These carriers can now serve as many shippers as they want. Since this leads to more efficient utilization of the nation's truck fleet, it is good for shippers, good for contract carriers, and good for the national economy.

HOUSEHOLD GOODS

In addition, the household goods carriers -- who are subject to the basic entry and rate bureau provisions of the Motor Carrier Act

as well as to more specific legislation enacted last year -- have been leaders in creative service offerings. For the first time, movers can offer customers binding estimates and agree to pay penalties for late pickups and deliveries. These possibilities have become realities less than one year after the enactment of household goods and motor carrier reform. Other innovations that have been offered include seasonal rates, a choice of several levels of service at varying prices, full replacement cost insurance, rates based on space rather than weight, and discounts for senior citizens. Movers are also beginning to apply for contract carrier authority for both household goods and other commodities in order to help fill empty backhauls and conserve fuel.

While on this topic, I should add that the early experience with deregulation of intrastate household goods carriers in Florida, which occurred on July 1, 1980, seems promising. The Florida Movers and Warehousemen's Association recently surveyed 90 moving companies. Over half of the respondents said that they had improved the efficiency of their operations. Although the Florida movers actively opposed deregulation in 1980, apparently there is now significant support of reform. Fifty-eight per cent of the respondents to the survey did not favor reimposition of regulation.

PRIVATE CARRIERS

We are also seeing the beginning of a new era for private carriers. Companies that haul at least some of their own freight far outnumber regulated trucking firms, and the long-run impact of regulatory reform on such private carriers could be very important to the economy. Under rules proposed or already promulgated by the ICC, private carriers would be able to haul freight for companies which are completely owned

within their corporate families, to use the services of owner-operators, and to lease their own trucks to regulated carriers.

These reforms will offer private carriers improved opportunities to fill empty backhauls, integrate their traffic patterns with carriers of other types, promote efficiency, and conserve fuel. When we consider that private carriers as a group haul about as many ton-miles of freight as do all ICC-regulated carriers, the prospects for improved transportation productivity are truly impressive.

INCIDENTAL TO AIR

We have also observed significant use of the provision of the Motor Carrier Act that expanded the exemption for trucking service incidental to air cargo service. We believe that this reform has complemented air cargo deregulation and enabled firms to expand offerings of multimodal service to shippers.

SMALL COMMUNITY SERVICE

Now, I'd like to return to the issue of what we have not seen as a result of reform, beginning with the small town service issue. As you are aware, one of the issues of greatest concern to the Congress last year was the potential impact of regulatory change on trucking service to small communities. Let me assure you that this Administration is sensitive to this issue and we have as yet observed no adverse effects from the Act on service to small communities. In fact, applications for operating authority to serve small communities, as well as applications to provide small package service, continue to be received by the ICC.

As you know, Mr. Chairman, numerous studies conducted prior to passage of the Motor Carrier Act showed that ICC-regulated carriers did not play a significant role in the provision of trucking service to small

towns. These studies also found that when a regulated carrier wanted to stop serving a community it often simply stopped service, without resorting to regulatory process. The previous regulatory system also kept potential new entrants out of these markets. Yet new entrants may have been the answer to the service and price needs of many small communities. Although we will have more extensive research available later this year, I want to note at this point that preliminary results of a new study undertaken for DOT indicate that shippers in small communities in 6 states are not experiencing any problems in obtaining trucking service. In addition, 1979 and 1981 studies of service to small communities in California, done by the California Public Utilities Commission, found that such service was generally considered satisfactory both before and after reform.

SAFETY/SECTION 30 RULEMAKING

Another concern that was expressed last year was that public safety problems could arise from enactment of trucking reform legislation. Again, we have not seen evidence to demonstrate that this concern was valid.

I think it's important, while on the subject of safety, to discuss the financial responsibility rulemaking recently completed by the Department pursuant to section 30 of the Motor Carrier Act. Section 30 differs from the rest of the Motor Carrier Act in that it increases regulation -- in this case by imposing financial responsibility requirements for the purpose of enhancing public safety. We have conducted our rulemaking with that purpose in mind, but also we have been mindful of the President's priority objective of keeping regulatory requirements to a minimum. We have put a great deal of effort into this rulemaking, and we believe

that our proposed final regulation, which was just issued, and which we expect to be published in the Federal Register in the next few days, meets both the objectives of the statute and the objective of keeping regulations to a minimum.

As you know, a number of complex issues were raised in the rulemaking and I have attached an appendix to my statement describing financial responsibility matters in greater detail. In addition, we have provided copies of the final rule to the Committee.

SUMMARY AND CONCLUSION

In summary, Mr. Chairman, we at DOT are pleased with initial developments under the new Act. The flexibility of reform seems to be providing the sorts of benefits that were expected with respect to improved price and service options for shippers. And it seems to be providing these benefits without chaos, and without adverse effects on safety or small town service. We believe that, under the new Act, carriers will be able to develop new and more responsive operating systems and new ways of tailoring contractual agreements to meet shipper needs, now that that unnecessary government regulation will not artificially restrict the exercise of managerial judgment.

And, we believe this is what the shipping public wants. For example, we have learned through trade publications of a recent shipper poll conducted by the Contract Carrier Conference which confirms the need for greater carrier creativity and responsiveness to shippers' needs. Respondents generally felt that the trucking industry was continuing to do an adequate job of moving freight but that much more was needed: better marketing, services tailored to meet individual shipper needs, better LTL service, improved intermodal coordination and especially

more attention to the overall physical distribution needs of the shipper. Moreover, not a single shipper advocated a return to the old regulatory system.

We are confident that, under the continued stimulus of regulatory reform, the trucking industry will provide such services in the future and that it will demonstrate the private sector's ability to respond to demands in the marketplace. This will result in a more efficient trucking industry and will, in turn, contribute to the development of a more efficient and revitalized economy. As the effects of motor carrier reform become more widespread and there is more experience under the new regulatory environment, we expect to be able to provide the Congress with the results of more systematic research concerning the impact of reform. And, based on past and present evidence, we believe that reform will prove beneficial and will contribute to our combined goals of regulatory reform and economic recovery.

That concludes my prepared statement, Mr. Chairman. My associates and I would be pleased to answer any questions the Committee may have.