

STATEMENT OF  
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U.S. DEPARTMENT OF TRANSPORTATION  
BEFORE THE SURFACE TRANSPORTATION SUBCOMMITTEE  
OF THE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION  
UNITED STATES SENATE  
REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS OF PASSENGERS  
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Mr. Chairman and members of the Committee, thank you for inviting the Department here today to discuss the Administration's views on economic regulation of intercity buses and the experience so far under the Bus Regulatory Reform Act of 1982 (Bus Act).

Although only a relatively few months have passed since the implementation of the Act in November 1982, the trends we see are very encouraging. The available data suggest that while route and service point adjustments are certainly taking place within the industry, the entry and exit provisions of the Act are working in tandem nicely to smooth temporary service dislocations.

The small communities of rural America, some of which are being impacted by service adjustments made possible under the exit provisions of the Act, are also the beneficiaries of the new freedom granted to carriers by its entry provisions.

Entry. By the first of July there had been approximately 1600 applications for operating authority published in the Federal Register since the implementation of the Act. Some 168 of these involve applications for regular route authority. In the years 1976-1980, by comparison, regular route applications averaged only 40 per year. The current regular route applications include hundreds of existing and new service points and encompass approximately 34,000 route miles.

As an example, a carrier has opened a new route stretching completely across western Kansas from north to south serving some 25 communities. The nearest comparable north-south route was previously some 50 miles to the east of these communities. A recent issue of the Federal Register contained this same carrier's application for significantly expanded regular route authority in Kansas, Missouri, and Nebraska. This carrier, utilizing mini-buses and vans where full sized coaches would be impractical because of light population density, recently indicated that "We're expanding like crazy using smaller equipment -- 8 to 21 passenger capacity....". This same carrier has indicated it will soon be operating some 4000 miles a day of intercity service in low density population areas, and expects to receive 91% of its revenue from these routes.

In rural Wisconsin a new carrier has obtained authority to operate a route slated for discontinuance by a large carrier and is operating additional new routings from the same area to Chicago which do not parallel those of the existing carrier. Another existing bus company recently opened a route from New York City through western New England over a route discontinued some months previously by another carrier, and has increased service to five trips daily in each direction, compared to the previous carrier's two; moreover, it has now, after several months, applied for authority to extend this primarily rural route even further. Extensive filings for new route authorities have been made in numerous other states

Applications across the country encompass many rural communities, including both those with existing service and those having no previous service. New applications to replace existing services of carriers

discontinuing service points are not only providing for the continuation of services where there is demand, but some of these replacement services are actually providing more trips and serving more points along, and adjacent to, the old route of the original carrier.

Applications for authority to operate "replacement" intercity regular route service has been noted in filings with the ICC for approximately one half of the states. It should also be noted that these statistics do not include entry activity taking place at the state level. Since many applications for exit are for, what are in reality, intrastate route segments, new entrants on such segments might well initially apply at only the state level, and would not appear in the ICC records we have been checking.

Exit. Shortly after implementation of the Act, there was significant publicity surrounding the announcement of a seemingly large number of service point discontinuances. Since that announcement, there have been applications by other carriers to assume some of these points, local subsidy has been extended in certain areas while less expensive carriers are located. In many cases new carriers have not entered, because the original carriers have continued to operate while negotiating with State and local authorities.

An examination of proposed points for discontinuance in California revealed that approximately half of the points had existing alternative service and many more are points that have generated or received little or no traffic for a long time. I believe this type of "non-service point" deserves somewhat more discussion because of the recent publicity regarding bus service abandonment.

It is important to analyze the definitions which apply to intercity bus service points which have been discontinued or are proposed for discontinuance by various carriers. There are primarily two types of stops listed on any given carrier's schedule. These are "flag stops" and "time points" with or without any terminal or station facility. The "flag stop" is used to indicate that a bus will pass at a time between the two bracketing schedule times and, if signaled, will stop. Flag stops are only used at points where traffic has declined to a very low level or is non-existent. "Time points" are used to indicate the time that a bus might be expected to arrive at a particular point. Normally buses are expected to stop at a time point to receive passengers. However, much like flag stops, time points have been carried on schedules long after agency facilities have closed for lack of business, patronage patterns have altered, and even the original reason for the stop, such as a hotel or some other traffic generator, has long ceased to exist. At one time it was a common practice to have more than one stop, with or without facilities, in many communities. As the nature of intercity bus travel and the needs of its passengers have changed, many of these multiple urban stops have become redundant. In some cases, shifts in population and industrial areas have removed their possible clientele.

Many flag stops and time points have been carried on schedules for years without any traffic being received or discharged at the particular place. This is especially true if, under a particular State regulatory scheme, it was necessary to expend much time, money and effort for discontinuance, such as for notices or public hearings. These points may have been only "served" by one trip a day, or even fewer, but the

fiction of their existence as "service" was maintained by regulation rather than utilization. The necessity for self-examination and the new freedom brought to the carriers by the implementation of the Act appear to have finally overcome the inertia inhibiting removal of these so-called service points. Thus, much of the service point discontinuance that has been publicized since the implementation of the Act is not really the abandonment of today's service, but only the overdue adjustment of a system evolving from one based on yesterday's needs.

In 1984, the Department plans to undertake a thorough study of exit and entry at the state level, to supplement the national data already being analyzed on a continuing basis as part of the DOT's monitoring of the impact of the Bus Act.

Terminal Access. A problem for some new carriers seeking to enter a market, and one which indirectly may also impact exit, is terminal access. Information provided by some new entrants through conversations with DOT personnel and contained in initial data being received under the DOT/ICC Intercity Bus Terminal Survey, mandated in the Bus Act, indicates that terminal access may be an impediment to new carriers. The major carriers appear very reluctant to permit any new carriers into their facilities. These include, in some instances, even those new entrants who are taking over routes discontinued by the selfsame major carriers. Copies of correspondence supplied by new carriers indicate this policy was in place even prior to the actual passage of the Act. We have heard allegations that both major carriers have refused new entrants access to their facilities in potentially competitive, and service replacement situations, as well as where services do not compete. A number of new entrants and potential

new entrants have stated that the lack of facilities and the lack of the capability to interline with major carriers, both effected through terminal access, is seriously affecting their expansion plans. We are continuing our study of this issue as mandated by the Bus Act and will send you a definitive analysis by the end of the year in the bus terminal report.

### Interstate and Intrastate Fares

We are pleased to note that head-to-head fare competition, wherein a number of carriers compete between common points, is beginning to emerge both at the interstate level and at the intrastate level in deregulated States. Intermodal fare competition is becoming more prevalent among bus, air, and rail carriers on routes in the 100-300-mile range. Competitive fare setting, which had been virtually unheard of in this industry, but is now emerging on the intrastate level in deregulated States such as Florida and Arizona, includes such innovations as time-of-day or peak/off-peak fares, and head-to-head competition at both the intermodal and intramodal levels. Peak/off-peak fares are not only cost-based because they allocate more costs to those who prefer to travel at periods of high demand (necessitating higher capacity and resultant higher costs), but also reward the more flexible traveler (including persons over 60) who can take advantage of service provided during off-peak periods when costs are lower.

Since the implementation of the Act, with its elimination of single-line immunity, fares in a number of markets around the country have declined. The single-line fares have not only declined in these markets but the fares of different carriers serving a given market are no longer necessarily

identical as they traditionally have been under collective ratemaking. Experience with non-collectively set fares in major markets under the deregulated environment of Florida has reflected similar results. However, this has not occurred in the area of interline fares which have continued to rise and are still set through general rate increases in the collective ratemaking process.

#### Impact of Promotional and Special Fares upon the General Rate Structure

Early indications from intrastate traffic in deregulated States and interstate traffic under the Act suggest that promotional and special fares will have a significant impact in many areas and, in fact, may become the only fares charged in the more highly competitive markets.

Examination of intrastate fares in Florida under total deregulation reveals several fares being offered between given city-pairs. These fares, based on both demand related to time of day on the one hand, and perceived competition on the other, provide the potential passenger with two or three fare choices between many city-pairs. At the interstate level, fare competition is also appearing in many areas. One major carrier has filed a tariff with the ICC permitting the carrier to refund the difference between its fare, and any lower fare by a common carrier of any mode, between points common to them both.

The promotional or special fare is the epitome of independent action. At the present time, both major carriers and their subsidiaries sell a pass-type ticket which is similar in concept to the Eurail pass. Although it is normally honored only by its selling carrier group, i.e., the Greyhound pass is honored only by Greyhound, and Trailways' by Trailways, exceptions

do exist in this arrangement to the extent that both carriers will honor such a pass in areas where only one of them operates. As antitrust immunity is reduced, these special fares are likely to proliferate. They will have the greatest impact in the more competitive high-traffic areas, but also in the pass-type tickets used primarily by vacation travelers, many of whom would probably be elderly.

#### Innovation and Entrepreneurship

In numerous ways, the implementation of the Act has produced a flourish of innovative activity in an industry not noted for innovation. We have already cited examples of new rural routes using equipment more precisely adapted to the demands of the traffic rather than the "traditional" size of bus operated on most routes. Fare competition and innovation are being tried by many carriers. It is interesting to note that innovation is not the sole province of the new entrant. Established carriers in both the regular route and charter field are making use of their new freedom to compete. A long-established carrier in the middle-Atlantic states has filed an innovative charter tariff which provides flexibility in competition not previously available to it. A large mid-western intercity bus firm has begun franchising new carriers. The new franchising service provides potential new operators with training, advice, financing, insurance, assistance in obtaining regulatory permits, and some general paperwork handling. The service is targeted toward new entrants whether they are new carriers or communities desirous of developing new or replacement services in their region.

Conclusion

To sum up, Mr. Chairman, we believe strongly that so far the entry and exit provisions of the Act are working smoothly to preserve intrastate and interstate service levels, while encouraging innovation and entrepreneurship within the industry, and that the industry is making a smooth transition to independent ratemaking without antitrust immunity.