

STATEMENT OF
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REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS
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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 motor carriers.

Although the legislative reforms affecting trucks, household goods carriers, and buses have been in effect for varying lengths of time, the overall results of reform are very positive. In my statement, I would like to highlight some of the benefits of reform in each of these segments of the motor carrier industry, beginning with the impact of the Motor Carrier Act of 1980 on the trucking industry.

TRUCKING

The Motor Carrier Act of 1980 (MCA) has now been in effect for more than three years. During much of that period, the trucking industry --like most industries -- has been burdened by weak demand for its services. Substantial decreases in truck tonnage levels have resulted in decreased profits and increased numbers of business failures, both in local and interstate trucking. However, throughout these difficult times, the industry as a whole has continued to provide good service to shippers and receivers throughout the nation, moving the freight wherever it is needed.

In many respects, the first volume of the truck regulatory reform story is nearly complete. With the exception of removal of antitrust immunity for single-line ratemaking, most of the basic reforms contemplated by the MCA have been implemented. We agree with the conclusions of the Motor Carrier Ratemaking Study Commission's report, which recommended the prompt removal of all antitrust immunity for motor carrier of property collective ratemaking.

In the meantime, carriers have been adjusting to a more competitive way of life. Some among them have voluntarily sought out ways to improve operating efficiency and respond better to shipper needs; many of these carriers will prosper. Others have resisted change, and for them the period of adjustment may prove more difficult.

Shippers, too, have been confronted with a new transportation environment. No longer does the shipper play a substantially passive role in the overall distribution process: many opportunities exist to shop for various price and service options, to negotiate service packages, to consolidate shipments and otherwise seek more efficient distribution strategies, and to work closely with carriers to design transportation services that best meet the shipper's overall needs. For shippers, as for carriers, transportation planning now entails substantially more than thumbing through a well-worn rate book.

The evidence we have seen during the past three years shows that shippers are happy with the results of motor carrier reform. The most recent results of a DOT sponsored multi-year survey of truck service to small communities are essentially the same as those of previous years: rural and isolated shippers continue to receive good service, with more shippers noting service improvements than deteriorations. While some

shippers receive less frequent service, almost all shippers note that more carriers are competing for their business than before the MCA.

Moreover, in Florida -- which totally deregulated its intrastate trucking industry in 1980 -- shippers seem to be similarly satisfied with the trucking service they are receiving. A DOT sponsored study of Florida truck deregulation found that both in 1981 and 1982, the vast majority of Florida shippers surveyed approved of deregulation. Most respondents in both years noted no change in overall service levels; of those who did report changes in service levels, three times as many reported improvements rather than deteriorations. A majority of respondents in both years perceived that deregulation had resulted in truck rates that were lower than they would have been under regulation.

As the members of this committee are well aware, the short-run picture is not uniformly rosy. Sharply lower truck tonnage has contributed to reduced profits for most, losses for many, and bankruptcy for some. According to the most recently available data from Dun & Bradstreet, the absolute numbers of business failures for both local and intercity trucking continued to rise sharply through the first half of 1982. These two series have moved in very similar fashion since 1978. Both local trucking -- which was not substantially impacted by the Motor Carrier Act -- and intercity trucking -- which, of course, was -- exhibited much higher levels of business failures as the economy weakened. We believe this is strong evidence that the recession has been the primary cause of these failures.

However, while overall demand for trucking services has continued to be weak, shippers are still receiving good service. The long term decline in tonnage appears to have bottomed out, and the beginning of

recovery seems to be at hand. For the many carriers that have pursued cost-reduction and efficiency-enhancing strategies during the recent hard times, better times ahead will mean robust profits and the means to invest in the future.

In 1983, financial performance has improved markedly for the trucking industry, although the financial health of individual carriers continues to vary substantially. First-quarter results showed an operating profit for the top 100 group of \$66 million, turning around last year's first quarter loss of \$46 million. Results for the year's second quarter -- typically the industry's strongest -- were even more promising, with an operating profit of \$220 million, an 80 percent increase over the 1982 level; and preliminary results we have seen from the third quarter show continued improvement.

Far fewer major carriers are operating at a loss compared to last year, and there have been vast improvements in the profitability of some of the largest carriers, such as Yellow Freight and Carolina Freight, as well as the apparent initial success of Arkansas Best's acquisition of East Texas Motor Freight. The four-year decline in truck tonnage appears to have now reversed, with modest increases expected to continue into 1984.

The trucking industry is finally responding to the upturn in the economy. The freedom to compete, together with the greater productivity provided by the Surface Transportation Assistance Act, gives truckers the potential for greatly improved earnings as the economy continues to strengthen.

With respect to the future, we see two especially promising long term trends: improving motor carrier efficiency through greater knowledge

by carriers of their internal operating characteristics, and new ways of facilitating information flows among carriers and shippers.

With respect to the first trend, there would appear to be little disagreement between government and industry on one very important maxim for the trucking industry of the 1980's: "Know your costs!" The industry's development of personal computer software for costing individual shipments should help put necessary cost and pricing data within the reach of even small carriers.

With respect to the second trend, both computers and people are helping to meet the information needs of the trucking industry. In particular, we have observed the recent rapid growth of property brokers, who facilitate informational and traffic flows by matching up carriers and shippers. Brokers have long played an important role in the transportation of exempt commodities; in the past three years they have begun to be an important factor in arranging the transportation of regulated commodities as well.

The growth of property brokerage is important to the trucking industry as a whole, but particularly so for the future of less-than-truckload (LTL) transportation. Many of the activities engaged in by brokers -- such as consolidating LTL shipments into full truckloads, arranging for truckloads to be "topped off" with LTL shipments, providing marketing services for smaller carriers, and making information about a wide variety of motor carriers easily available to shippers -- help encourage the maximum possible levels of competition in the movement of LTL freight. These help assure that the shipper of LTL freight will have as many alternatives as possible, not just those LTL carriers, freight forwarders, and shippers associations the shipper already happens to know about.

In addition, attitudes as well as institutions will help shape the future of the trucking industry. In the three years since enactment of the MCA, we have seen a gradual trend toward acceptance of reform on the part of industry executives. While certain segments of the industry -- such as contract and private carriers -- have been sympathetic to reform all along, we are beginning to see a broadening of this acceptance. A recent survey done by The Consulting Center of Marlboro, Massachusetts found that forty percent of the trucking executives surveyed no longer felt that antitrust immunity was necessary. In addition, the 1982 survey of Florida motor carriers of property undertaken for DOT showed that 47 percent of the respondents either preferred deregulation of their intrastate trucking industry or did not care one way or another. We will, of course, be glad to provide this and our other recent motor carrier studies to this Committee.

Finally, we have seen no valid statistical evidence linking deregulation with the safety performance of the trucking industry. Nevertheless, the Secretary has made it clear that highway safety is one of her highest transportation priorities, and motor carrier safety regulation will be given a greater degree of attention than it has received in the past. In this regard, the Department is moving rapidly to implement the recently enacted five-year program of grants to the States for increased enforcement of truck and bus safety. Under this program, endorsed by the Administration, the States are now preparing applications for funding and should begin receiving substantial sums to improve safety enforcement as of January.

In summary, as the Department also testified last year, we believe that trucking reform is working well. Through difficult times, the industry

has responded to economic regulatory reform in the ways intended by the Congress: by the creation of new carriers and the expansion of existing carriers into new markets, by the provision of a wide variety of new price and service options to shippers, and by a continuing search for more efficient operating techniques, all leading to lower rates for shippers and savings to consumers. As tonnage levels begin to improve, we believe that those carriers who have best adapted to the new, more competitive environment will begin to reap the economic rewards of their actions.

HOUSEHOLD GOODS

During the past three years, household goods carriers have been operating in the more flexible, more competitive environment provided by the reforms of the Household Goods Transportation Act of 1980 (Household Goods Act), as well as those of the Motor Carrier Act of 1980 (MCA). I am pleased to report that reform is also working well in the household goods sector.

The evidence we have seen strongly suggests that household goods carriers have taken advantage of both sets of legislative reforms to streamline their operations and provide shippers with new and improved services, as well as engaging in more competitive pricing. For example, binding estimates and guaranteed pickup and delivery have proven especially popular with consumers. These two practices were specifically authorized by the Household Goods Act. In addition, the greater pricing flexibility provided by the MCA has encouraged independent action with regard to household goods carriers' rates.

Between 1980 and 1982, household goods carriers' performance improved in a number of dimensions besides pricing. In particular, Interstate Commerce Commission (ICC) data show an improvement in the percentage of

shipments delivered on time and a decline in the average number of days required for carriers to settle claims. The average percentage of shipments delivered on time rose from 92 to 96 percent, while the average number of days required to settle claims declined from 24 to 20 days. More competition, more operating flexibility, and the right to guarantee good service have had the effect intended by Congress: household goods customers are getting better service. Throughout difficult economic times, the household goods industry has improved its reputation for quality, and is to be commended for its efforts.

As was also the case for the trucking industry in general, the past year was one marked by depressed tonnage for household goods carriers. However, we are now seeing signs of recovery for these carriers as the overall economy improves. The Interstate Commerce Commission reported a slight increase in tonnage hauled by the major household goods carriers in the second quarter of 1983 (excluding North American Van Lines, Inc., whose substantial general freight operations make data comparability difficult), and about a 20 percent increase in quarterly net income for these carriers over 1982. For the year ended June 30, the carriers reported an improvement in average operating ratio and return on equity, although tonnage was down for the twelve month period as a whole. All but two of these major carriers included in the ICC report showed profits for the year, and the average return on equity for the group was nearly 16 percent.

As a group, the major household goods carriers continued to be more profitable than other large trucking firms. This is not meant to imply that all carriers in the industry are doing well. We have yet to receive the results of our recent survey of small Class III motor carriers of

property, and to analyze the impact of the reforms and the recession on them. We expect to have those results available by the end of the month.

Finally, although many of the reforms intended by the Household Goods Act have been very successfully implemented, we believe that there is one important area where much more could be done -- the reduction of paperwork burden. The past three years have demonstrated that increased competition and operational flexibility can do a good job of ensuring that consumers' moving needs are well met, and we understand that the Interstate Commerce Commission is planning to take another look at its extensive regulations for household goods carriers, in order to further reduce paperwork burden and promote greater operational flexibility wherever feasible.

The ICC revised these regulations soon after enactment of the Household Goods Act. However, because of court review, the revised regulations did not take effect until February 1, 1982. Members of the moving industry, who deal with these rules on a day-to-day basis, have made clear that relatively little paperwork burden has yet been removed from their operations. For example, last year the National Moving and Storage Association reported to Congress that over 80 percent of the respondents to its survey had observed no decrease in the paperwork burdens they faced. The evidence to date suggests that guarantees, service options, and competitive rates offered by carriers themselves -- rather than the heavy hand of regulation and its associated paper shuffling -- have been the best means to provide consumers with quality household goods service.

In summary, we believe that reform is working well and that, as the economy continues to recover, the many carriers who have already taken

measures to improve their efficiency and responsiveness to consumer needs will begin to see those efforts rewarded by enhanced profits.

BUSES

Although only a year has 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 nicely in tandem 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 25 communities. The nearest comparable north-south route was previously about 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....". The carrier has indicated it will soon be operating 4000 miles a day of intercity service to 137 communities 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 also been made in western Massachusetts and Connecticut. An existing small carrier has applied for a major grant of regular-route authority throughout the South, encompassing routes in Virginia, North Carolina, South Carolina, Tennessee, Georgia, and Florida. These routes include many small communities as well as major metropolitan areas. This carrier has begun operating portions of its new grant of authority, although terminal access appears to be inhibiting it in some areas.

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.

A national carrier discontinued a route from New York City, through New Jersey, Pennsylvania, and Ohio; but the route has now been taken over by three separate regional carriers, with virtually all portions of the route receiving as much or more service than the national carrier was operating at the time it discontinued the service. In upper New York State, a route discontinuance between Utica and Watertown announced by a major carrier resulted in two carriers requesting authority over the route. One of these carriers has begun service, with New York State financial assistance, and is serving some 15 rural service points along this route, as compared with only four served by the former carrier.

Applications for authority to operate "replacement" intercity regular route service have 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 monitoring.

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 lower-cost carriers are sought. 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 some 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 Study.

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. Single-line fares have declined in these markets; moreover, 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 offered by a common carrier of any mode, between points common to them both.

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. Such promotional or special fares are the epitome of independent action. Thus, 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 utilizing 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, maintenance, assistance in obtaining regulatory permits, and some general paperwork handling. The service is targeted toward new entrants whether they are new carriers or communities desiring to develop new or replacement services in their region.

Conclusion

In summary, we believe strongly that so far the entry and exit provisions of the Bus Regulatory Reform 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. In addition, the substantially longer experience with truck and household goods reform shows that reform is working well in these areas. We encourage the ICC to seek out additional opportunities to reduce paperwork burden on carriers, especially household goods carriers.

That concludes my prepared remarks, Mr. Chairman. I will now be glad to answer any questions that you or other members of this Committee may have.