STATEMENT OF
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BEFORE THE SURFACE TRANSPORTATION SUBCOMMITTEE
OF THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES
REGARDING ECONOMIC REGULATION OF HOUSEHOLD GOODS CARRIERS
AND 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 the economic regulation of household goods carriers and motor carriers of passengers.

Although the legislative reforms affecting household goods carriers and buses have been in effect for different lengths of time, the results of reform are very positive. In my statement, I would like to highlight some of the results of reform in both of these segments of the motor carrier industry, beginning with household goods carriers.

HOUSEHOLD GOODS CARRIERS

For four years now, household goods carriers have been operating in the more flexible, more competitive environment provided by the reforms incorporated both in the Household Goods Transportation Act of 1980 and in the Motor Carrier Act of 1980. I am pleased to report that, as the Department has testified in previous years, reform is working well in the household goods sector of the trucking industry.

The good news is that carriers have taken advantage of these reforms to provide shippers with new and improved services, as well as to offer more competitive prices. Even through some difficult economic times, the household goods carrier industry was providing better service to its customers than it did during the days of strict, old-fashioned regulation.

Many new services, such as binding estimates and guaranteed pickup and delivery, have proven especially popular with consumers. In addition, customer complaint levels have fallen sharply since 1980.

That's the good news. Now for the even better news. Last fall we saw the first glimmer of improvement in the financial and operating results for household goods carriers. This year, I'm delighted to report that a strong economy has resulted in a tremendous improvement in the financial performance of this segment of the trucking industry.

Results for the second quarter of 1984, as compiled by the Household Goods Carriers Bureau, show that the 18 largest carriers experienced a 29.6 percent increase in operating revenues, compared to the second quarter of 1983. Tonnage rose an impressive 17.4 percent, and net carrier quarterly operating income surged from $9.6 million to $21.4 million.

Comparisons between the 12-month periods ending June 30, 1984, and June 30, 1983, also showed substantial improvement. For example, tonnage grew by nearly 13 percent; and operating revenues rose by more than 21 percent. The Bureau also reported that the first six months' results for 1984 represented the best such results in the past five years. Although only the larger carriers report these data to the Bureau, they are said to account for about 90 percent of overall intercity household goods industry revenues.

Based upon what we've seen so far, 1984 looks like a good year for household goods carriers. Nevertheless, many challenges remain -- both for carriers and for government. For carriers, there is the continuing challenge of adjusting to a more competitive, less regulated environment. This evolution can take many different forms for different carriers, but certain issues are likely to confront virtually all carriers.

For example, a carrier needs to have a firm grip on its costs, both in the sense of knowing what its costs are for the various different types of services and in the sense of keeping them under control, by operating efficiently.

In addition, a carrier needs to be in touch with its customers. As industry members have told us many times, a carrier's reputation is a highly valuable asset; and it's an investment made by giving shippers what they want, at a fair price, and with a clear sense of each party's rights and obligations. Today, more than ever, carriers need to focus on what services the marketplace wants -- and those who search out and develop new markets will be rewarded for their efforts.

Similarly, a carrier needs to be in touch with its own future, with what sort of company it's going to be. Many household goods carriers are diversifying into new lines of business, such as warehousing, distribution, or hauling new commodities. Some are becoming part of broader transportation companies. Others are forming new van lines or changing from one van line to another. Wherever a carrier is heading, the need for long run planning has never been more important than it is today.

Nevertheless, the challenges of the future are not just for carriers to face. Government, too, has a very important role to play. Although we think that the Interstate Commerce Commission has implemented both the Motor Carrier Act and the Household Goods Transportation Act in a generally pro-competitive manner, the challenges of reform are not yet all behind us. Carriers are still faced with at least a small mountain of paperwork and regulatory burden -- and some tell us it's a <u>large</u> mountain.

We have seen no evidence that old-fashioned, detailed regulation of the day-to-day operations of household goods carriers ever provided consumers with better service; and we believe the time has come for this regulatory and paperwork burden to be greatly reduced. The ICC has an excellent opportunity to reduce this burden in its Ex Parte No. MC-19 proceeding, which received public comments last December. We have urged the Commission in this proceeding to take advantage of this opportunity to reduce regulations to the absolute minimum, consistent with adequate protection of consumers.

Vigorous marketplace competition, coupled with good information about a carrier's policies and a clear understanding of both parties' rights and obligations, should provide much better consumer satisfaction than would be produced by the inefficient shackles of detailed regulation. We hope that the Commission will issue a decision soon that is in keeping with these principles.

In summary, we are pleased to report that reform is working well and that household goods carriers are participating strongly in the economy's rebound. We hope that the ICC will soon give these carriers an even greater opportunity to be responsive to consumers' needs, by greatly reducing the paperwork and regulatory burdens they still face.

MOTOR CARRIERS OF PASSENGERS

We have now accumulated nearly two years experience and data under the Bus Regulatory Reform Act (BRRA) of 1982. The industry is still in transition, but generally we can say that the Act is having a positive effect.

Entry and Exit

With respect to entry and exit from the intercity bus industry, the available data suggest that the initial spurt in service abandonments that we saw in the first months under the Act has now abated, and that they are now resuming a rate about equal to or below pre-Act levels. Even this much reduced rate should be considered in connection with the fact that some of the route adjustments announced shortly after implementation of the Act are still being made.

Entry, in terms of new service introductions, is occurring where the industry perceives a demand. Of particular interest is the fact that in those states that removed all intrastate regulation before the Act's implementation, and where more time has elapsed to allow the initial adjustment to the freer operating environment, the historic long-term decline of the regular route intercity bus industry appears to have ceased and even, to some extent, been reversed.

Entry

By the end of July 1984, there had been approximately 2,500 applications for new operating authority published in the Federal Register or ICC Register. Of these, 293 involved applications for regular route authority to provide service among various communities. An additional 71 applications sought regular route authority to serve more specialized destinations such as airports and recreational communities. Forty-seven applications also sought to remove restrictions against picking up or discharging passengers along existing routes. Regular route applications have been published involving every state in the continental United States, Alaska, and the District of Columbia.

Summary statistics such as these, however, fail to give a full sense of what is actually happening where people travel. Some illustrative examples may help to provide a clearer picture.

A new company has begun operating from Minneapolis, MN, into rural areas of western Wisconsin over a route that had been discontinued by another carrier some time prior to the implementation of the Act. In the same general area a small Wisconsin carrier which entered the Chicago, IL, to Minneapolis, MN, market in competition with a major national carrier approximately two years ago has recently increased both service and routings between those points. This same carrier has recently received authority to operate between Minneapolis, MN, and Kansas City, MO, and initiated service in late August.

Two regional carriers in the South/Southwest have greatly expanded their route structures and are interlining with each other to provide new options for travelers across Texas and Louisiana.

These new service authorities cover many communities, including those with existing service and those with no service or recently discontinued service. In Texas, for example, a number of small communities lost service when a major carrier withdrew and was not immediately replaced. Now these points are being served by a large regional carrier. Recently a national carrier also applied to serve these routes, although it has not yet initiated service.

In the State of Maine, a major carrier abandoned a route between Bangor and Calais, near the Canadian boundary, which served both cross-border traffic with the Maritime provinces and a very low level of intrastate business over a somewhat circuitous local route. After the discontinuance

the international service was assumed by a major regional carrier in the Maritimes which now operates over a direct, but relatively unpopulated, route from the border to Bangor. Meanwhile, a new local carrier has begun service with a minivan over the old local route, providing service among the small communities and access to a national carrier at Bangor.

In rural Wisconsin, a small carrier that began operating new and replacement service shortly after the inception of the Act, primarily on a weekend basis, is now operating daily service.

Exit

Let me now turn to the matter of exit. The late 1982 and 1983 period was characterized by numerous service and route adjustments by the industry in general and a major carrier's announcement of a seemingly large number of service point discontinuances. Both the number and character of the discontinuances announced in the first year of the Act's implementation strongly imply that regulation had been forcing the continuation of some services from which carriers had wanted to withdraw for a long time. Preliminary data indicate, however, that once this pent-up need to exit was satisfied, the overall annual rate of decline in departures returned, in 1983-1984, to slightly less than the average experienced in the eight years prior to enactment of the Act. Actual service point discontinuances have remained at slightly above pre-Act averages due, in large part, to delayed effectiveness of discontinuances announced immediately after the Act was passed.

In analyzing these trends, it is important to differentiate between the types of service points being abandoned. Many points were carried on carrier schedules for years without any actual traffic having been

received or discharged at them. Apparently, these points had been retained in the schedules simply because of the cost and red tape involved in obtaining discontinuance under a particular state regulatory scheme. In many cases service at these points was minimal, often only one trip a day or less. Many such service points were only flag stops or, if shown as a time service point in the schedule, had no station because traffic was very low or non-existent.

A route discontinuance in Indiana shortly after the implementation of the BRRA exemplifies the situations encountered. In late 1982 a regional carrier discontinued a route between Logansport, IN, and Chicago, IL, that served 18 communities. On paper this might appear to be a major service loss to the area, yet upon closer examination it was found that the route operated only on "the first Tuesday of each month except holidays". In actual practice, a passenger vehicle ran once a month, excepting holidays, from Logansport to Chicago and left Chicago an hour later for the return trip. This route was not being operated to serve a demand for transportation, but existed only as the result of either state regulation or to comply with the pre-BRRA requirements of the ICC for holding what was known as "incidental charter authority." That was the "right to originate charter buses in an area based upon the fact that the company services the area with regular route operations."

Service levels examined in states which had deregulated intrastate passenger transportation prior to implementation of the Act have stabilized and, in fact, are beginning to increase both in departures and points served. Because the number of these states is small and their circumstances not entirely representative, it would be inappropriate to cite their experience

as evidence of a proven trend. However, their experience may suggest that a substantial period of time is needed to eliminate the holdover effects of stringent regulation and to begin developing a bus industry structure responsive to today's needs.

Interstate and Intrastate Fares

Differences between interstate and intrastate fares are gradually being reduced. As a result, the interstate passenger is less and less frequently subsidizing intrastate fares kept artificially low by state regulation. Some differences between interstate and intrastate fares still exist, but they are being noticeably reduced. The impact of regulation on fare levels is evidenced by the fact that, in those states with the strongest regulatory tradition, intrastate fares display the greatest disparity with interstate fares.

Head-to-head fare competition is taking place at both the intermodal and intramodal levels. Competitive pricing is becoming more sophisticated as the carriers learn to function in their new environment. Not only are such innovations as time-of-day or peak/off-peak fares being introduced, but also fares are being reduced where competing services are offered. Significant intermodal competition from discount airlines has also arisen recently on a number of routes. And both of the major carriers have filed, for the first time, mileage-based interstate tariffs.

When one looks at the fares actually being paid by travelers, including competitive and promotional fares, one finds that it is possible to ride between many points today for a lower fare than in 1980. When the effects of inflation are taken into account, an even greater proportion of fares are at or below their 1980 level. It now seems clear that stringent regulation was not needed to prevent unwarranted rate increases.

Removal of Antitrust Immunity for Single and Joint-Line Ratemaking

The Bus Regulatory Reform Act of 1982 mandated the elimination of antitrust immunity for collective ratemaking for single-line rates beginning January 1, 1983 and the removal of joint-line collective ratemaking on January 1, 1984. A year and three quarters after the elimination of collective ratemaking for single line fares and 9 months after its elimination for joint line fares, we know of no serious problems arising from the elimination of the antitrust immunity to conduct such discussions. As was the case for the July 1 end to single-line immunity for trucking, the loss of much collective ratemaking immunity for the bus industry seems to have been a "non-event."

Impact on the Elderly and Poor

Preliminary data from a study of the experience of 12 states[1/] indicate that service terminations do not appear to have fallen disproportionately upon the elderly or the poor. In those communities where service was terminated in the 1982-1984 period, the population of elderly was lower, and the average median income was actually higher, as a percentage of the total U.S. population. The Motor Carrier Ratemaking Study Commission has also found that, based on evidence developed during the first year after enactment of the BRRA, the elderly have not been adversely affected.[2/]

Conclusion

In summary, it appears that, to date, the entry and exit provisions of the Act are working as expected, and permit carriers to adjust their operations to meet actual market place needs. Intrastate and interstate bus service is being preserved where the demand for service exists. Meanwhile, the industry is adapting to the new freedoms of the operating environment.

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.

1/ These states are Arizona, California, Florida, Indiana, Massachusetts, Missouri, Montana, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota.

2/ "Implementation of the Bus Regulatory Reform Act of 1982: The Impact on Older Americans and the Effect on Interstate Bus Service" at 423-4 (1984).