United States General Accounting Office 132420

GAO

Report to Congressional Requesters

February 1987

TRUCKING REGULATION

Price Competition and Market Structure in the Trucking Industry

132420

GAO/RCED-87-16

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-219190

February 27, 1987

The Honorable Peter W. Rodino, Jr.
Chairman, Committee on the Judiciary
House of Representatives

The Honorable James J. Howard
Chairman, Committee on Public Works
and Transportation
House of Representatives

On July 31, 1985, you requested that we inquire into allegations of predatory pricing in the less-than-truckload (LTL) sector[1] of the trucking industry. "Predatory pricing" is the practice of setting prices below cost so as to drive smaller firms out of the market. As you know, we presented testimony based on our inquiries on November 7, 1985, at hearings of the Subcommittee on Surface Transportation of the House Committee on Public Works and Transportation. (A copy of this testimony appears as appendix I.) This report includes the analysis presented at the hearing as well as additional data on 3 regions not covered in our testimony, plus Department of Justice and Interstate Commerce Commission comments.

Objectives, Scope, and Methodology

You asked us to investigate (1) the nature of discount pricing and what effects, if any, it has had on competition in the industry and (2) the structure of the LTL segment of the industry, how it has changed since 1980, and possible causes of those changes You also asked that we review a study on price-setting by the Central & Southern Motor Freight Tariff Association.

The analysis presented in our testimony was based on a review of the available literature on the trucking industry; discussions with carriers, shippers, academic analysts, union representatives, tariff bureau officials, antitrust lawyers, and government officials; analysis of a limited body of data on changes in market shares since deregulation; and a review of recent court cases and complaints to the Interstate Commerce Commission (ICC) involving predatory pricing in the trucking industry. We examined the structure of the industry by looking at concentration (the extent to which the market is concentrated in the hands of a small

[1] Less-than-truckload freight is usually defined as that shipped in amounts weighing less than 10,000 pounds Those shipments weighing 10,000 pounds or more are considered to be truckload freight

number of firms) and barriers to entry (how difficult it is for a new firm to enter the industry). Since many LTL trucking companies confine their operations to particular regions of the country, we analyzed regional market share data to judge the level of and changes in concentration in the industry

We caution that these data suffer from the shortcomings we cited in our testimony, namely the omission of some trucking firms that did not report their data and (for the regional data) the inclusion of some truckload as well as LTL freight. Although we attempted to estimate the extent to which LTL carriers were omitted from the regional data, we were unable to do so. We also attempted to distinguish truckload from LTL data but were able to do so only for the national data.

The scarcity of data specific to LTL traffic led us to use combined LTL and truckload intercity general freight[2] data for all of our analysis of regional market structure. However, 75 percent of intercity general freight trucking revenues are for LTL shipments. Further, the national data (see app. II) show that market structure for Class I and II combined truckload and LTL carriers (i.e., truckload and LTL carriers with more than $1 million in revenues per year) is similar to the structure for Class I and II LTL carriers alone, though the LTL traffic alone is somewhat more concentrated than the combined traffic. We therefore believe that the combined data are indicative of the trends for the LTL sector of the market alone. The regional data, along with national data on LTL market concentration for 1980 and 1984, appear as appendixes II and III.

Appendix IV presents maps showing the regions on which our regional data are based. These regions are unique to the trucking industry. While some regions include data only for shipments within a group of states, others include data for shipments between groups of states.

Results of Our Analysis

In our testimony, we concluded that we could find no conclusive evidence of predatory pricing in the trucking industry. The available data suggested that there had been an increase in concentration in trucking markets since 1980 (though concentration in trucking was no higher than in American manufacturing generally). We found no legal cases involving predatory pricing in the trucking industry. We presented data

[2]General freight traffic includes all traffic that is not specialized Examples of specialized commodities are household goods, petroleum products, refrigerated goods, forest products, and dangerous or hazardous materials

on changes in market concentration in six regions—Eastern Central, Pacific Inland, Rocky Mountain, Central States, Middle Atlantic, and Middlewest. All these regions showed an increase in concentration from 1980 to 1983. The increase in the concentration ratio (the market share of the top four firms) was least in the Pacific Inland region (from 48 percent in 1980 to 49 percent in 1983) and greatest in the Central States region (from 20 percent in 1980 to 30 percent in 1983). Since we presented our testimony, we have completed our analysis of regional data on market concentration in the general freight trucking business. The additional data analysis we have performed generally confirms the conclusions presented in our testimony

The additional data we analyzed subsequent to our testimony are from the three remaining regions for which market share data are filed with the ICC—New England, Southern, and Central & Southern The market share of the largest four firms rose in the New England region from 25 percent in 1980 to 30 percent in 1983, but remained about the same in the Southern region (at 28 percent) and fell slightly in the Central & Southern region (from 42 percent in 1980 to 41 percent in 1983) These concentration ratios all fall within the range we found among the other regions and, as stated in our testimony, are about the same as those found in American manufacturing generally. Nationally, the market share of LTL traffic of the largest four firms rose from 25 percent in 1980 to 36 percent in 1984 (while national data were available for 1984, regional data were available only up to 1983 at the time we did our analysis).

You also asked that we review a 1981 study prepared by the Central & Southern Motor Freight Tariff Association, Inc., on "issue traffic" (i e., intra-regional traffic) in the Central & Southern region. A trucking executive with whom we met at your request said that this study documented a pattern of excessively low prices within the Central & Southern region that had the effect of driving small firms out of business The Central & Southern Association advised us that the study referred to had been proposed but never actually completed. In its place, the Association sent us data on issue and system (i.e., nationwide) traffic profitability for Central & Southern carriers for 1981-83 We also have profitability data for other regions compiled from justification statements filed with the ICC.

If prices were excessively low, relative to costs, in the Central & Southern region, this should be reflected in low profitability in this region relative to others. The data indicate that profit rates on issue traffic in some regions (such as Rocky Mountain) were higher than those in Central & Southern in the late 1970's However, the data also show that profits in the Central & Southern region rose relative to those in other regions in the period 1978-83 and that, by 1981-83, Central & Southern carriers made higher profits on their issue traffic than on their system traffic. This suggests that, while profits and rates in the Central & Southern region may have been depressed relative to profits and rates in other regions in the late 1970's, this became less true in the 1980's While some firms left the market between 1978 and 1983, this appears to have been largely due to a fall in regional revenues during this period. The market share of the top four firms remained about the same.

We requested comments on a draft of this report from the ICC, the Department of Justice, and the Federal Trade Commission (FTC). ICC and Justice generally concurred in our analysis and conclusions. The FTC decided not to comment on the draft report; however, FTC staff who examined the draft report concurred in its analysis and conclusions.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request

This work was performed under the direction of Herbert R. McLure, Associate Director. Other major contributors are listed in appendix VI.

J. Dexter Peach

J. Dexter Peach
Assistant Comptroller
General

Contents

Abbreviations

FTC	Federal Trade Commission
GAO	General Accounting Office
ICC	Interstate Commerce Commission
LTL	Less-than-truckload
RCED	Resources, Community, and Economic Development Division

Statement of Herbert R. McLure on Predatory Pricing and Antitrust Enforcement in the Trucking Industry

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
NOVEMBER 7, 1985

STATEMENT OF

HERBERT R. MCLURE, ASSOCIATE DIRECTOR

RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

U.S. GENERAL ACCOUNTING OFFICE

BEFORE THE

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

UNITED STATES HOUSE OF REPRESENTATIVES

ON

PREDATORY PRICING AND ANTITRUST ENFORCEMENT

IN THE TRUCKING INDUSTRY

Mr. Chairman and Members of the Committee:

I am pleased to be here to discuss your concerns about predatory pricing and antitrust enforcement in the trucking industry. In 1980, the Congress adopted a new, more pro-competitive approach to regulation of the trucking industry. Some carriers were concerned at the time that the act was being considered that large carriers would use their new pricing freedom to set prices below cost so as to drive smaller trucking companies out of business. Despite the fact that such predatory pricing was clearly prohibited by the new Motor Carrier Act, carriers continued to raise concerns about predatory pricing. The ICC investigated the issue twice, and the Motor Carrier Ratemaking Study Commission, which was created by the 1980 Motor Carrier Act, also considered it. Last year David Lifschultz, a trucking company executive, asked the Justice Department's Antitrust Division to investigate the issue, but they declined because they concluded that structural conditions in the trucking industry made predatory pricing unlikely to occur. The ICC and the Motor Carrier Ratemaking Study Commission came to the same conclusion.

You and Chairman Rodino of the Judiciary Committee asked us to investigate:

(1) the nature of discount pricing and what effects, if any, it has had on competition in the industry, and

(2) The structure of the less-than-truckload, or LTL segment of the trucking industry, how it has changed since 1980, and possible causes of those changes.

You also asked us to provide information concerning what remedies the antitrust and/or regulatory laws have provided for competitive problems in the industry.

Our comments today are based on a review of the available literature on the trucking industry, including government reports and academic analyses; discussions with a variety of observers of and participants in the trucking industry, including carriers, shippers, academic analysts, union representatives, tariff bureau officials, antitrust lawyers, and government officials; analysis of a limited body of data on changes in market shares since deregulation; and a review of recent court cases and complaints to the ICC involving predatory pricing in the trucking industry.

As agreed, we have limited the scope of our inquiry to the LTL segment of the trucking industry--the segment concerning which these allegations of predatory pricing have been made. This segment of the industry concentrates on small, less-than-truckload shipments which generally must be consolidated into truckload lots at terminals before they are carried to their destinations. LTL operations are generally characterized by a network of such terminals, which may require a substantial capital investment.

We wish to emphasize that very little information exists concerning costs, prices, and market structure in the LTL trucking industry. We are not certain how reliable these data are, and we are therefore presenting our findings based on the data we have been able to gather, and noting where the data are inconclusive.

SUMMARY

1. We found a substantial amount of discount pricing but no conclusive evidence relating to the existence of predatory pricing. Most of the carriers we talked to told us they believe that some carriers set prices below cost either inadvertently because they do not know how much it costs to carry each shipment, temporarily as a promotional device, or to secure possible spillover benefits from winning a large shipping account. Some carriers told us, however, that they believe others are practicing predatory pricing, but could not offer reliable data to support their allegations.

2. The available data suggest that all regions of the country have experienced some increase in the market shares of the largest firms in the industry since 1980. Theoretically, this increase in concentration may reduce competition in the industry, though it also may increase efficiency. Concentration levels in the LTL trucking industry are about the same as those in American manufacturing generally.
3. We were unable to find any court cases in which predatory pricing was alleged in the trucking industry in recent years. We found two formal complaints of predatory pricing to the ICC, which they dismissed for lack of evidence.

In the discussion that follows, I will elaborate on these points.

THE NATURE AND CONSEQUENCES OF DISCOUNT PRICING

A variety of different kinds of discounts have been offered since the Motor Carrier Act was enacted in 1980. Some carriers told us they offer across-the-board discounts for all their customers (or at least all who ask for a discount) of 10-15 percent off the collectively established prices set by the tariff bureaus. In some cases, according to the Motor Carrier Ratemaking Study Commission Report, as well as several of the carriers we talked with, the size of the discount varies with the size of the pick-up (i.e., a lower price is offered if several shipments are picked up at the same time) or with the shipper's monthly traffic volume.

Some carriers told us that promotional or introductory discounts are sometimes offered. For example, the discount may be offered for the first 90 days after service is offered in a new territory. Carriers told us that, in some cases, discounts are larger on return trips.

There is wide speculation within the industry that some of the discounts offered do not cover costs. Several of the carriers and other industry observers we talked with told us this occurs because carriers do not know the costs of carrying particular shipments. Some told us promotional prices probably don't cover costs in the short run because they yield modest revenues per ton-mile at the same time that substantial start-up costs are being incurred. These start-up costs include costs of buying or leasing terminal space, trucks, and trailers, hiring and training additional staff, and advertising. They also are likely to include, according to some of the carriers we spoke with, the costs of running trucks without full loads because traffic is difficult to attract at first, even with substantial discounts. But carriers who offer promotional discounts argue that by increasing traffic they reduce costs per ton-mile sufficiently to cover costs in the long run. Others told us that discounted prices which do not cover costs are offered to large shippers on the grounds that these large contracts will have spill-over effects on other traffic. While carriers may lose money on the traffic carried from a particular supplier to a large retailer, for example, they may make money on shipments from the same supplier to other retailers, which they wind up carrying because they are already calling on the supplier.

STRUCTURE OF THE LTL TRUCKING INDUSTRY

We examined the structure of the industry by looking at concentration (the extent to which the market is concentrated in the hands of a small number of firms), and barriers to entry (how difficult it is for a new firm to enter the industry). For example, the extent to which large firms have cost or marketing advantages over small firms is an entry barrier. Government entry regulation such as many states still apply to intrastate trucking is another example. An analysis of the structure of the industry is helpful in assessing how likely predatory pricing is to occur in an industry.

Concentration

Since many LTL trucking companies confine their operations to particular regions of the country, we analyzed regional market share data to judge the level of and changes in concentration in the industry. In some cases, e.g., for the Rocky Mountain region, the data include both traffic within that region and traffic between that region and other regions. The data available on regional market shares come from statements filed by regional tariff bureaus with the ICC to justify rate increases. We are not certain how reliable these data are. They combine data for truckload and LTL traffic, and therefore may understate LTL concentration if truckload traffic of reporting carriers is less concentrated than LTL traffic. These data also exclude carriers who do not report their data to the tariff bureaus. However, the ICC staff we spoke with believe that most LTL carriers still report their data to the tariff bureaus. Finally, the most recent data available are for 1983.

Our analysis of the TL and LTL data combined showed that in the Eastern Central region, which includes traffic between 17 midwestern states and 13 northeastern states, the largest 4 firms received 50 percent of the revenues in 1983, and the largest 8 received 69 percent. In the Pacific Inland region, the top 4 firms received 49 percent of the revenues; in the Rocky Mountain region, 48 percent; in the Central States region, 30 percent, and in the Middle Atlantic and Middle Western regions, 28 percent.

The limited data available indicate that concentration has generally increased in each region since 1980. The data also indicate that the increase in concentration has been least in those regions which were already most concentrated. In the Pacific Inland region, for example, which was most concentrated in 1980 (48 percent), the share of the top 4 has risen by only one percentage point from 1980 to 1983, and was actually slightly smaller in 1983 than it was in 1981 and 1982. In the Rocky Mountain region, which includes coast-to-coast traffic, the share of the top 4 firms rose from 44 percent in 1980 to 48 percent in 1983. This growth continued an increase in the market share of the top 4 that had been underway at least since 1978. In the Eastern Central region, where the share of the top 4 was lower in 1980 (40 percent), the increase in concentration has been greater (to 50 percent in 1983). This was also true in the Middle Western region (22 percent in 1980; 28 percent in 1983), the Central States region (20 percent in 1980; 30 percent in 1983), and in the Middle Atlantic region (21 percent in 1980; 28 percent in 1983).

The level of concentration shown in the 1983 data is moderate. Four-firm concentration ratios of 30 to 50 percent, such as those found in the LTL trucking industry, are about average for American manufacturing industries generally (for example, Frederic M. Scherer calculated that the weighted average four-firm concentration ratio in American manufacturing in 1972 was 39.2 percent). However, traffic levels are still below the peaks achieved in 1978, and several LTL firms have gone out of business since 1983. It is therefore likely that concentration will increase somewhat over the levels of 1983 unless traffic levels rise substantially.

There are several possible causes of the apparent increase in concentration. Increases in concentration may occur because of normal adjustments to economies of scale and scope and normal variations in business success, as well as the possible effects of below-cost pricing. The apparent increase in concentration has been greatest in the eastern and midwestern regions where predatory pricing has been most prominently alleged. But we would expect less entry and more exit in these regions because of the low profit levels prior to deregulation.

These concentration data are of uncertain reliability. If this Committee wishes to monitor changes in concentration levels, you may wish to consider, in any action taken on pending deregulatory legislation, the value of maintaining a data base on market structure in the trucking industry. Such a data base would allow trends in concentration to be assessed in the future. Such a data base might be maintained either by the Bureau of the Census or by the Department of Transportation, and could include time series data on both national and regional market shares for the LTL market.

Barriers to entry

Since 1980, Federal regulatory entry barriers have become virtually non-existent, but state regulation may still be significant. Some carriers who have sought to enter the LTL market or expand their operations told us they were unable to do so because of the difficulty of getting intrastate operating authority from state regulatory commissions within certain states. These carriers said that efficient LTL operations, at least for regional carriers, required intrastate operating authority.

Entry into the LTL sector of the trucking industry requires access to terminals as well as use of trucks. However, trucks and terminal space can be leased, reducing the capital required for entry. Nevertheless, entry can place a significant amount of working capital at risk. For example, Leaseway Express, generally considered to be the only significant entrant into the LTL market since deregulation, told us that it lost between $5 and $10 million before leaving the market in early 1985.

Size advantages could also result in entry barriers. The economic literature generally concludes that there are some advantages of size in the LTL trucking industry, but the extent of these advantages is subject to dispute. Moreover, some shippers and carriers told us there are also significant disadvantages of size. They argue that management becomes less effective as it attempts to oversee a larger and larger operation. Also, some shippers told us that large long-haul carriers using breakbulk stations (i.e., large regional terminals which consolidate traffic from smaller terminals) as part of their routing network provide slower service and charge higher prices on short-haul traffic than smaller regional carriers who ship direct from terminal to terminal without routing through breakbulk stations.

The depressed traffic levels of the LTL trucking industry since 1980 have also been short-run entry barriers that are not likely to remain in the long run if traffic levels recover. There has been virtually no entry into the LTL segment of the industry by companies wholly new to the trucking business since the 1980 Motor Carrier Act was passed. It is difficult to say how much this has been due to the continuing depressed levels of traffic in the industry and how much to entry barriers that would continue in place even under more favorable economic conditions. The depressed traffic levels have not prevented extensive entry into the truckload segment of the industry.

While there has been virtually no entry into LTL trucking by companies outside the trucking industry, numerous trucking companies operating in one region have expanded into other regions. There has been some entry into every region we have examined, but the largest number of companies have entered the Rocky Mountain region, despite the fact that this region, characterized by long-haul traffic, is considered to be more costly to enter than other regions. This may have been because, in 1978, concentration and profits in this region were relatively high.

While economic entry barriers in LTL trucking appear to be moderate, the lack of significant entry since 1980 makes it difficult to assess their importance. Certainly the liberalization of ICC certification requirements since the 1980 Motor Carrier Act has permitted significant entry by existing motor carriers into new territories, stimulating new competition. But continued state regulation of intrastate trucking may have inhibited entry into interstate LTL trucking. In any case, the absence of wholly new entrants leaves the relative importance of remaining entry barriers in the industry a partially open question.

INFORMATION ON REMEDIES PROVIDED BY THE ANTITRUST AND REGULATORY LAWS

In addressing this issue, we reviewed cases brought by the Department of Justice, the Federal Trade Commission, and private parties alleging antitrust violations in the trucking industry. We also reviewed complaints made to the ICC alleging predatory pricing. Neither the ICC nor the Justice Department could identify any recent federal civil or criminal litigation alleging predatory pricing in the trucking industry. We have found five antitrust cases involving LTL trucking. All were price-fixing cases involving tariff bureaus or other industry groups and their members. Two were filed by the Justice Department's Antitrust Division; three were filed by private parties. The Justice Department told us they believe collective pricing by tariff bureaus and their members is more of a threat to competition than is predatory pricing. Some antitrust lawyers in private practice told us they believe predatory pricing is occurring, but feel it is extremely difficult to prove in court. Some of the recent legal literature has suggested that recent court decisions have narrowed the legal definition of predatory pricing. However, we were not told of any obstacles to bringing a predatory pricing case in the trucking industry different from those occuring in any other industry.

The FTC is currently barred from exercising its enforcement powers against interstate common carriers and has therefore restricted its activity in the trucking industry to intrastate trucking. While the FTC was litigating several intrastate trucking cases earlier this year, it dropped two of these cases as a result of the Supreme Court's recent Southern Motor Carriers decision, which limited federal action against intrastate restraints of trade. All of these FTC cases are also price-fixing cases.

We found two complaints to the ICC concerning predatory pricing. The ICC is empowered to prevent predatory pricing in the regulated interstate trucking industry under the Interstate Commerce Act. The ICC dismissed these cases for lack of evidence.

In short, we found no cases where the remedies available under either the antitrust laws or the Interstate Commerce Act have been used against alleged predatory pricing in the LTL segment of the trucking industry. We cannot say whether this is because predatory pricing has not occurred, or because it is difficult to prove that it is occurring.

* * * * *

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you might have.

National Concentration Ratios for Intercity General Freight Trucking

The following table shows national concentration ratios for intercity general freight trucking. The "concentration ratio" is the percentage of the industry's revenues accounted for by the largest 4, largest 8, or largest 20 firms Economists have generally found that the higher the concentration ratio, the less competitive the industry is, though competitiveness is also affected by several other factors, such as how strictly the industry is regulated The data in the table show an increase in concentration from 1980 to 1984 However, the level of concentration in 1984 was about average for American manufacturing industries

The data shown are for what the Interstate Commerce Commission refers to as "Instruction 27" carriers These are Class I and II common carriers (i e , those with annual revenues of more than $1 million) that, for the past 3 years, have derived at least 75 percent of their revenues from the intercity transportation of general commodities According to the American Trucking Associations, Inc , less-than-truckload carriers generally fall into this category

The table shows data both for all intercity general freight (i e , truckload and less-than-truckload shipments combined) and for less-than-truckload shipments alone "Less-than-truckload" is defined as shipments of less than 10,000 pounds As the data on total revenues show, less-than-truckload shipments accounted for about three-quarters of total revenues in 1984

	Percent of total revenues accounted for by largest firms			
	Truckload and less-than-truckload		Less-than-truckload	
	1980	1984	1980	1984
Largest 4 firms	21 5	31 7	25 0	36 0
Largest 8 firms	32 2	42 4	34 6	47 2
Largest 20 firms	48 3	60 8	50 3	65 7
Total revenues (millions of dollars)	**$15,800**	**$15,506**	**$10,327**	**$11,582**

Source Calculated from data in American Trucking Associations, Inc , 1980 and 1984 Motor Carrier Annual Report, Financial and Operating Statistics

Regional Concentration Ratios for Intercity General Freight Trucking

These tables show concentration ratios within each of the nine regions The regions are defined as the areas for which rates are proposed by particular regional rate bureaus These regions are shown in the maps in appendix IV. Since many less-than-truckload companies operate primarily in a particular region, these regional concentration ratios probably show the degree of competition better than the national concentration ratios presented in appendix II. Some of the regions, such as Central States, include only traffic within a particular group of states. Other regions, such as Rocky Mountain, include both traffic within a group of states and traffic between that group of states and another group of states. Some regions, such as Eastern Central, include only traffic moving between separate groups of states As a result, some regions, particularly Rocky Mountain, Eastern Central, and Central & Southern, have more long-haul traffic than others These regions tend to have higher concentration ratios than the others

	Percent of total revenues accounted for by largest firms					
	1978	**1979**	**1980**	**1981**	**1982**	**1983**
Central & Southern						
Largest 4 firms	39 5	40 1	41 6	40 6	42 9	41 0
Largest 8 firms	56 0	56 2	58 6	58 4	62 6	63 4
Largest 20 firms	79 3	81 1	83 5	83 6	84 5	85 8
Total revenues (millions of dollars)	**$935**	**$974**	**$935**	**$915**	**$762**	**$814**
Central States						
Largest 4 firms	16 4	17 6	20 4	23 2	25 7	30 4
Largest 8 firms	27 1	28 6	31 6	35 1	39 2	44 8
Largest 20 firms	49 3	51 9	53 0	58 7	62 9	69 9
Total revenues (millions of dollars)	**$1,463**	**$1,576**	**$1,312**	**$1,274**	**$1,083**	**$938**
Eastern Central						
Largest 4 firms	38 3	38 3	40 2	38 6	47 2	50 1
Largest 8 firms	56 8	56 7	57 8	57 7	64 4	68 8
Largest 20 firms	80 3	81 7	81 0	82 7	87 6	90 7
Total revenues (millions of dollars)	**$1,933**	**$2,105**	**$2,036**	**$2,052**	**$1,688**	**$1,634**
Middle Atlantic						
Largest 4 firms	18 4	19 2	21 2	22 0	26 1	28 5
Largest 8 firms	31 5	32 1	36 2	37 9	41 8	44 5
Largest 20 firms	55 2	54 2	59 6	62 6	64 5	67 0
Total revenues (millions of dollars)	**$1,148**	**$1,304**	**$1,278**	**$1,101**	**$1,075**	**$1,016**

	Percent of total revenues accounted for by largest firms					
	1978	1979	1980	1981	1982	1983
Middlewest						
Largest 4 firms	20 1	20 7	21 6	22 6	26 3	28 5
Largest 8 firms	31 1	31 7	34 4	34 1	39 8	42 4
Largest 20 firms	51 0	52 3	57 7	58 4	62 1	65 0
Total revenues (millions of dollars)	**$2,180**	**$2,271**	**$2,132**	**$2,307**	**$1,956**	**$1,806**
New England						
Largest 4 firms	n a	n a	24 7	27 5	29 6	30 3
Largest 8 firms	n a	n a	33 7	37 5	39 9	41 0
Largest 20 firms	n a	n a	51 9	55 0	56 7	55 7
Total revenues (millions of dollars)	**n.a.**	**n.a.**	**$498**	**$477**	**$435**	**$453**
Pacific Inland						
Largest 4 firms	48 3	44 5	48 3	51 7	50 5	49 3
Largest 8 firms	73 3	68 2	67 7	69 1	65 5	65 6
Largest 20 firms	89 4	87 7	89 3	87 2	84 0	84 2
Total revenues (millions of dollars)	**$72**	**$76**	**$71**	**$73**	**$56**	**$53**
Rocky Mountain						
Largest 4 firms	43 0	43 3	44 1	43 1	46 2	47 9
Largest 8 firms	61 6	63 1	63 6	61 5	64 3	63 0
Largest 20 firms	88 7	89 7	93 0	89 6	88 8	84 7
Total revenues (millions of dollars)	**$2,382**	**$2,611**	**$2,628**	**$2,722**	**$2,520**	**$2,590**
Southern						
Largest 4 firms	27 8	27 1	28 1	27 5	28 7	27 8
Largest 8 firms	43 5	43 3	44 7	45 3	47 8	48 1
Largest 20 firms	67 5	68 2	70 9	72 6	74 5	74 3
Total revenues (millions of dollars)	**$2,638**	**$2,835**	**$2,822**	**$2,866**	**$2,506**	**$2,518**

n a = not available

Source Calculated from data in justification statements submitted by general freight rate bureaus to the Interstate Commerce Commission in support of proposed rate increases to take effect on or about April 1 of each year

Maps of Motor Carrier Rate Bureau Regions

There are nine regional motor carrier rate bureaus which are required by the ICC to submit traffic data on their members in support of interstate proposed rate increases or adjustments for general freight. Maps of the areas for which these bureaus propose rates are presented in this appendix. These maps are taken from The Official Directory of Industrial and Commercial Traffic Executives, 1985 Edition, published by the Traffic Service Corporation, and are reprinted with their permission The rate bureaus gather data from their members on "issue revenues," that is, revenues for freight shipments to which the bureaus' proposed rates would be potentially applicable These "issue revenues" are the basis of the regional concentration ratio estimates presented in appendix III

Figure IV.1: Central & Southern Region

Thru rates published by the Central & Southern Motor Freight Tariff Assn apply between points within this area on the one hand and points within this area on the other hand

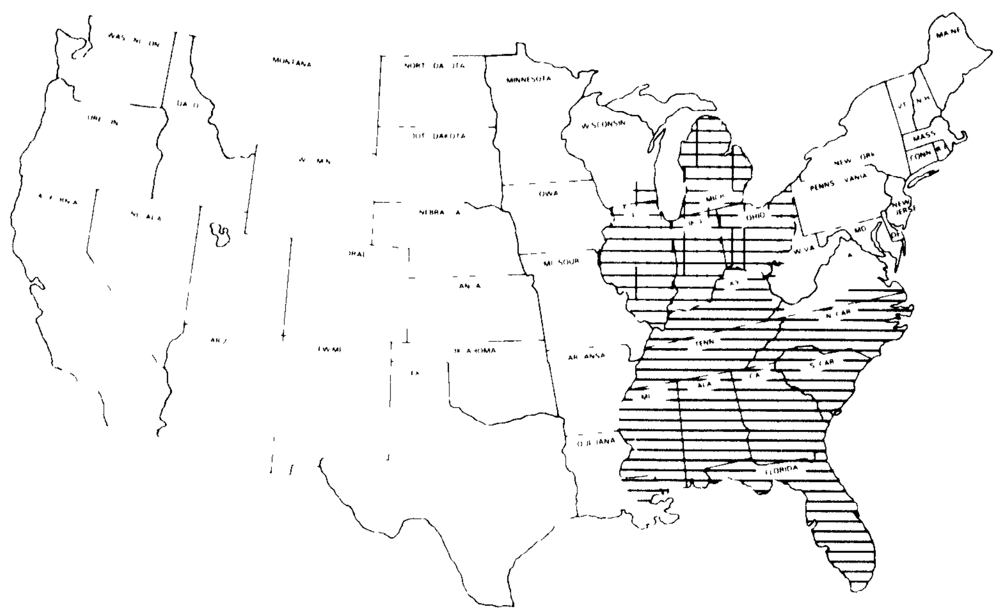


Figure IV.2: Central States Region

Thru rates published by the Central States Motor Freight Bureau Inc apply between points within this area

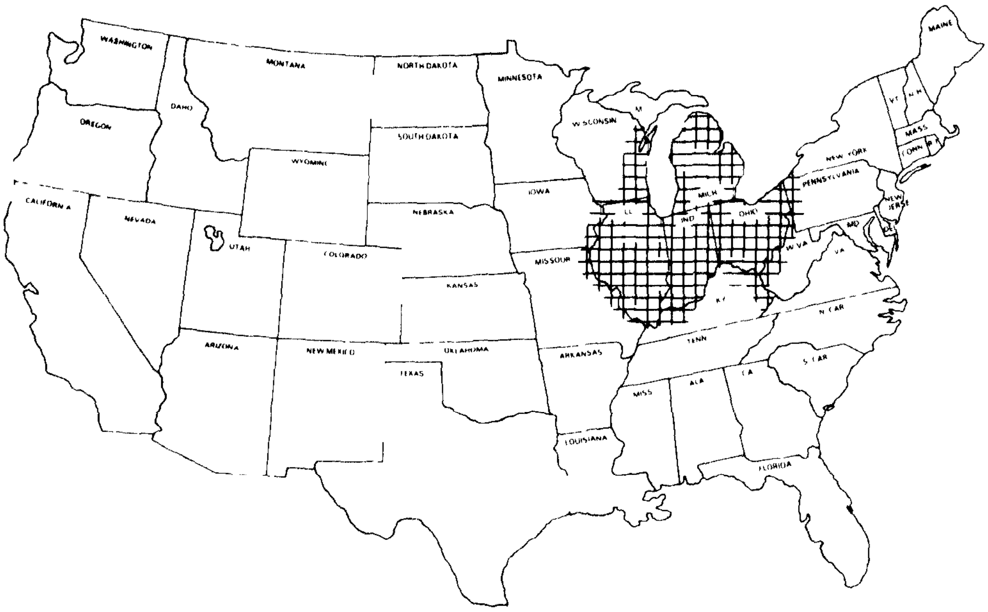


Figure IV.3: Eastern Central Region

Thru rates published by this Bureau apply between points within this area || on the one hand and points within this area on the other hand

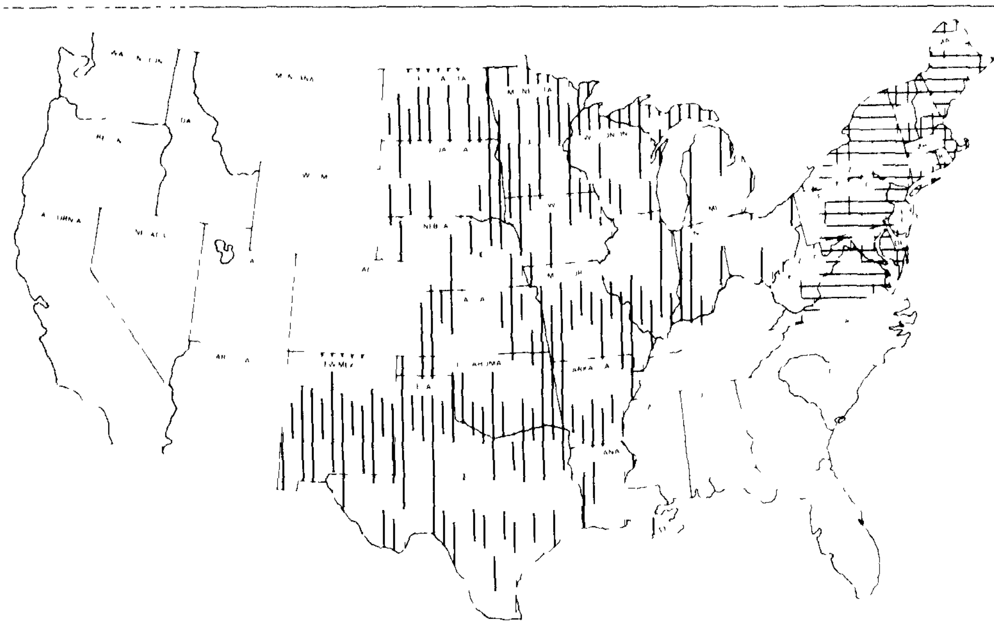


Figure IV.4. Middle Atlantic Region

Thru rates published by the Middle Atlantic Conference apply between points within this area AND between points within this area on the one hand and points within this area on the other hand

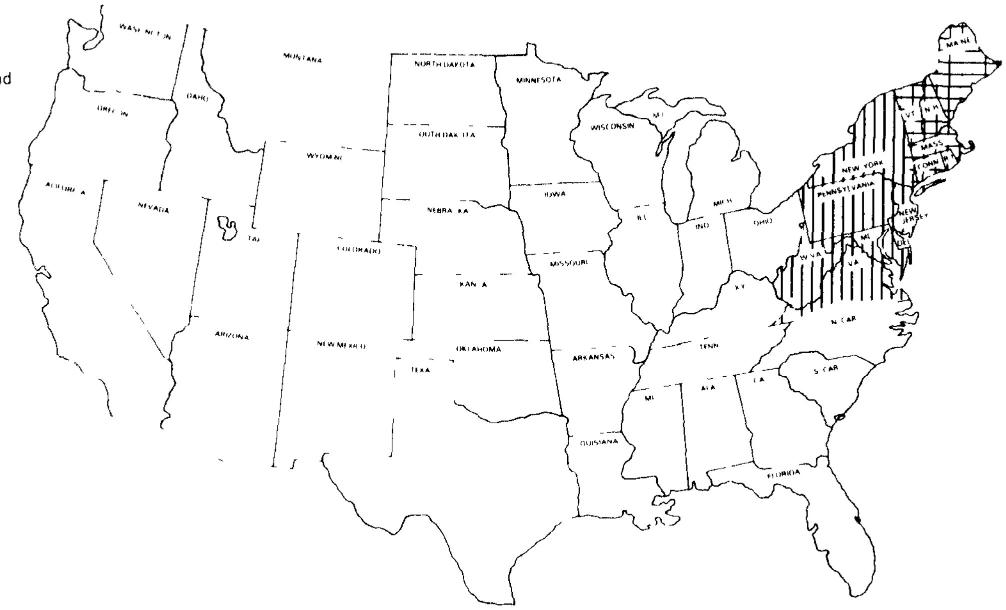


Figure IV.5: Middlewest Region

Thru rates published by the Middlewest Motor Freight Bureau apply between points within this area AND between points within this area on the one hand and points within this area on the other hand ALSO between Central Canada and points in both these

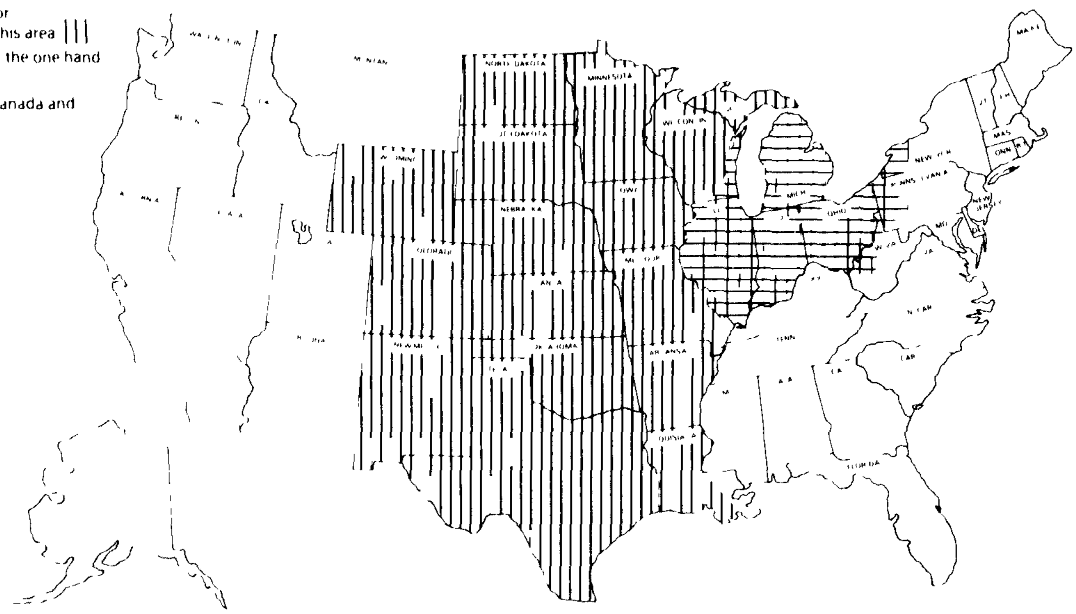


Figure IV.6: New England Region

Thru rates published by the New England Motor Rate Bureau, Inc apply between points within this area

Figure IV.7: Pacific Inland Region

Thru rates published by the Pacific Inland Tariff Bureau Inc apply between points within this area AND between points within this area on the one hand and points in this area on the other hand
Also between points within this area

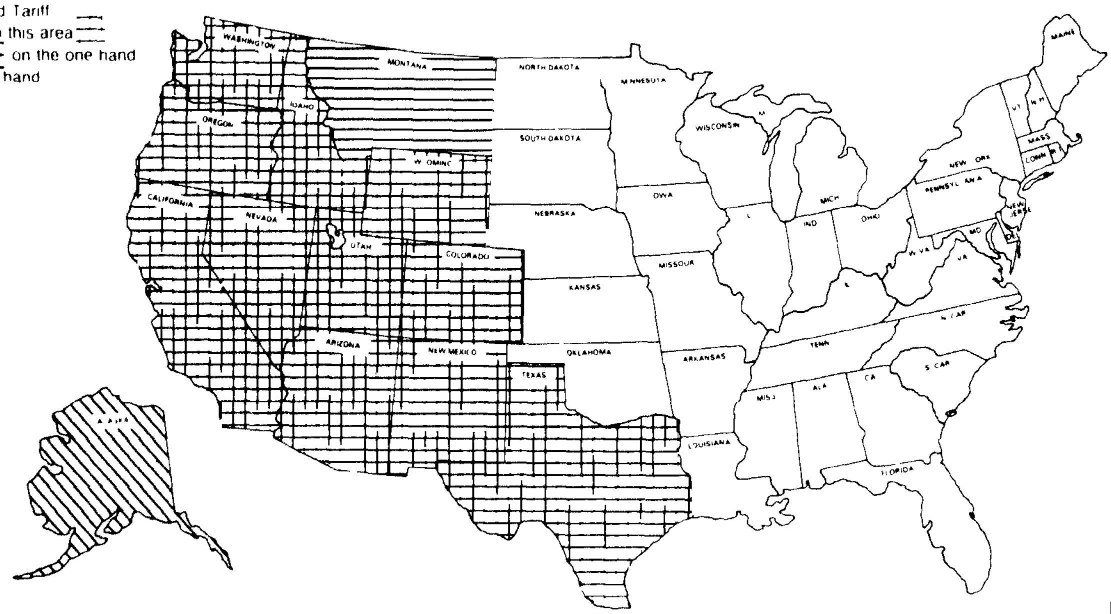


Figure IV.8: Rocky Mountain Region

Generally thru rates published by this Bureau apply Between points in this area between points in this area and this area between points in this area and this area and between points in this area and these areas

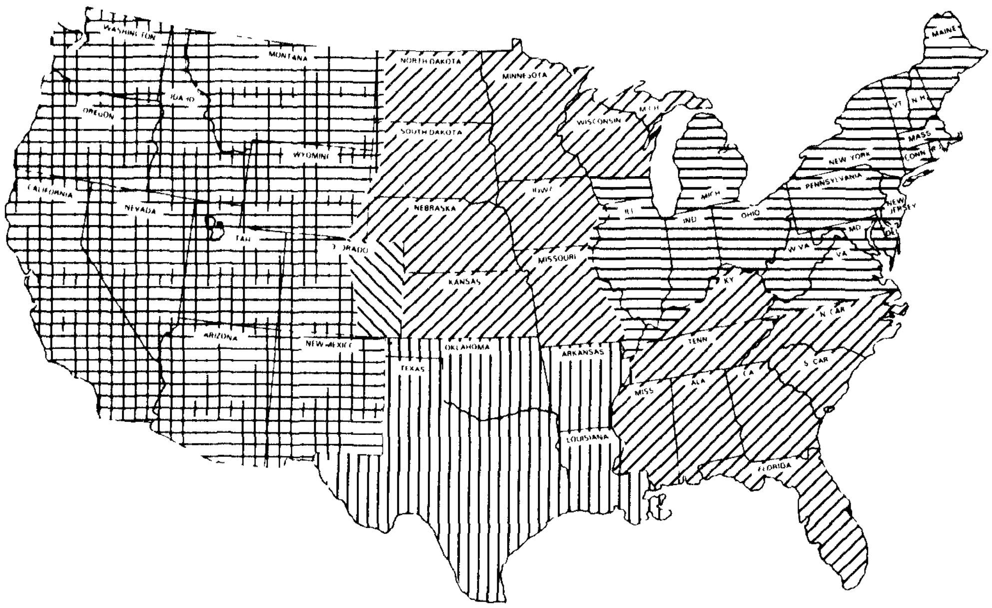
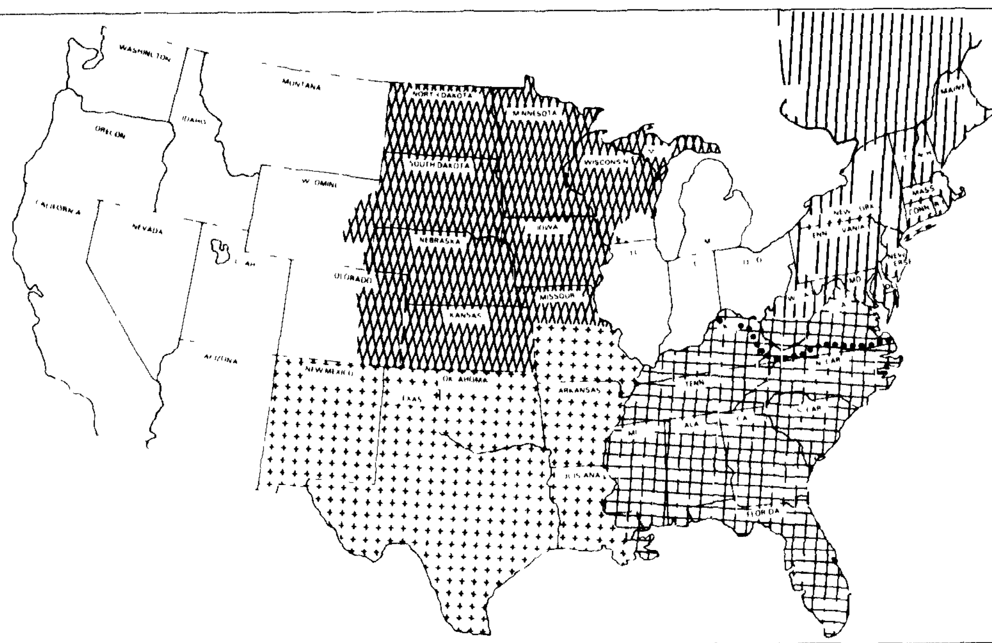


Figure IV.9: Southern Region

Thru rates published by this Bureau apply to points within this area between and + + + between and between and The portion of this area above the dotted line is considered southern territory only when to and from points in the South



Comments From the Interstate Commerce Commission

Note GAO comments supplementing those in the report text appear at the end of this appendix

Interstate Commerce Commission
Washington, D.C. 20423

OFFICE OF THE MANAGING DIRECTOR

November 5, 1986

Mr. Jack Wells
General Accounting Office
Rm. 2330
400 7th Street, S.W.
Washington, D.C. 20590

Dear Mr. Wells:

Enclosed is a short memorandum prepared by our Office of Transportation Analysis in response to your request for our comments on your draft report on motor carrier pricing and market structure. OTA's analysis reinforces the point I made to you when you dropped off the report with me. That is that all of our research and virtually all credible research elsewhere indicate that predatory pricing is not an efficacious strategy in trucking, and that the industry does not have "natural monopoly" characteristics which should give rise to concern about concentration. If you need more from us on this subject, please let me know.

See comment 1

On the subject of sunset and appropriate staffing transfers to DOT, we have problems with the numbers used in your testimony earlier this year. As I indicated to your earlier, the numbers need to be updated through reference to our FY'88 budget request. I am willing to discuss this with you further at your convenience.

Sincerely,

Edward E. Guthrie
Managing Director

Enclosure

cc: John Hennigan

INTERSTATE COMMERCE COMMISSION

Memorandum

TO : Edward E. Guthrie
Managing Director

DATE. Oct 29, 1986

FROM : Wm R. Southard, Director
Office of Transportation Analysis

SUBJECT : OTA REVIEW OF DRAFT GAO REPORT ENTITLED TRUCKING REGULATION PRICE COMPETITION AND MARKET STRUCTURE IN THE TRUCKING INDUSTRY

The draft GAO report that we have reviewed was prepared at the request of Congressmen Rodino (Chairman, House Judiciary Committee) and Howard (Chairman, House Committee on Public Works and Transportation). The draft report is essentially an update of the November 1985 Congressional testimony of GAO Associate Director McLure on predatory pricing and anti-trust enforcement in the trucking industry.

The additional data analyzed in this update confirm GAO's two key initial conclusions. First, GAO finds no conclusive evidence relating to the existence of predatory pricing in the trucking industry Second, GAO finds some increase in concentration in general freight trucking markets in the period 1980 to 1983, but no higher at the end of that period than in American manufacturing generally.

We believe the data presented by GAO in its original testimony and updated draft are essentially correct, and differ only slightly with GAO on interpretation of that data. In particular

GAO finds no conclusive evidence relating to the existence of predatory pricing in the trucking industry while OTA has found no evidence at all of predation. Neither can we identify any rational explanation of how a trucking firm or firms that unlawfully gained market share through a predation strategy could later exploit that situation to earn back in monopoly profits the losses incurred while unlawfully gaining market share. Trucking is a relatively unconcentrated industry with no significant entry barriers and mobile capital. Thus, large carriers with "deep pockets" have neither the incentive nor the ability to successfully adopt a pricing strategy involving predation.

U S G P O 1984-461-516/24901

ICC-1061 (5/80)

The increases found in concentration ratios in trucking markets are quite small and, given the final low levels of concentration in those markets, are fully consistent with more, not less, competition in LTL trucking. In competitive markets, such as trucking services today, price changes mirror changes in efficiency. These price changes cause traffic to shift to the most efficient carriers and route systems. Thus, as long as overall concentration remains low, small increases in market share by efficient carriers is fully consistent with more competition. That such is in fact the case is easily verified by any casual survey of LTL carriers or shippers Price and service competition has significantly increased since 1980 even as trucking markets have become slightly more concentrated.

See comment 2

GAO's analysis of changes in concentration in general freight regional trucking markets represents the period 1980 to 1983. GAO does not note that general freight revenues actually declined over this period in each of the nine regional markets analyzed. The small increases in concentration in these markets found by GAO were not due to large carriers taking business away from smaller firms, but from the larger firms success at maintaining their revenues or experiencing only slight declines relative to the larger revenue declines experienced by smaller firms.

See comment 3

The GAO draft also did not make mention of a recent (July 10, 1986) petition by the Regular Common Carrier Conference requesting that the Commission institute a rulemaking proceeding with respect to the payment of discounts by motor carriers of property to firms not responsible for the payment of freight charges. RCCC alleges that this form of discount is an unfair, unreasonable, and deceptive competitive practice, but does not allege that these discounts have been used as part of a predation strategy engaged in by trucking firms. This RCCC petition is now pending before the Commission.

The following are GAO's comments on the Interstate Commerce Commission's letter dated November 5, 1986

GAO Comments

1. The second paragraph refers to another GAO assignment concerning the possible "sunset" of ICC's trucking regulatory responsibilities, on which GAO testified in May 1986.

2. We note in our discussion of the Central & Southern region that declines in revenues contribute to increases in concentration. Appendix III presents data on declines in regional revenues for all nine regions

3. We have not reviewed the Regular Common Carrier Conference petition. The fact that it does not allege predatory pricing does not necessarily indicate that predatory pricing does not exist.

Comments From the U.S. Department of Justice

U.S. Department of Justice

Washington D.C. 20530

NOV 25 1986

Mr. Arnold P Jones
Senior Associate Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Jones:

This letter responds to your request to the Attorney General for the comments of the Department of Justice on your draft report entitled Trucking Regulation: Price Competition and Market Structure in the Trucking Industry. The General Accounting Office (GAO) prepared this draft report in response to congressional requests to consider allegations of predatory pricing in the less-than-truckload (LTL) sector of the trucking industry. 1/ In particular, GAO was asked to report on the nature and effects of discount pricing in the LTL sector of the trucking industry and to investigate whether the LTL market structure had changed since enactment of the Motor Carrier Act of 1980. The request had also asked the GAO to review a study on pricing done by the Central and Southern Motor Freight Tariff Association. 2/

The GAO draft report updates data and views contained in 1985 GAO testimony before a congressional subcommittee. 3/ That

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1/ Less-than truckload normally refers to shipments weighing less than 10,000 pounds. Often these shipments are combined at a terminal point, filling trucks to more efficiently carry LTL traffic.

2/ GAO found that this report was never completed. The GAO report does address LTL market structure in the central and southern states

3/ Statement of Herbert R. McLure, Associate Director, Resources, Community, and Economic Development Division, U.S

Footnote Continued

Mr Arnold P. Jones 2

testimony is enclosed as an appendix to the draft report, as are regional and national market share data, and an explanation of what regions were considered in the analysis

The basic conclusion reached by GAO in both its November 7, 1985, testimony and draft report is that there is no conclusive evidence of predatory pricing in the trucking industry. GAO also examined the market structure of the LTL industry, reviewing concentration and barriers to entry, and concluded that while concentration had increased since 1980, it was currently no higher than average for United States manufacturing industries.

The Antitrust Division of the Department of Justice has reviewed the GAO draft report, has considered GAO's conclusions, methodology and data used for reaching those conclusions, and offers the following comments 4/

ANTITRUST DIVISION COMMENTS

The Antitrust Division's views regarding possible predatory pricing in the LTL sector of the trucking industry are in accord with the general conclusions expressed in the GAO draft report. Moreover, the Division is in general agreement with the methodology and data collections used to support GAO's conclusions.

The Division might have given greater emphasis to certain points in the report, however. For example, the Division would emphasize that discount pricing is not generally indicative of predation. To the contrary, the Division generally views discount pricing to be procompetitive since these discounts generally reflect "hard" competition that benefits consumers Before concluding that discount pricing is predatory, there should be a careful review to determine whether the discounts are below a firm's true costs, and whether the industry structure is such that a firm might be able to benefit in the long term from predatory below-cost pricing

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3/ Footnote Continued

General Accounting Office before the Subcommittee on Surface Transportation, Committee on Public Works and Transportation, United States House of Representatives on Predatory Pricing and Antitrust Enforcement in the Trucking Industry (November 7, 1985) (Appendix I to the GAO draft report).

4/ The Division did not gather data to prepare these comments but relied on the data presented in the GAO draft report

Mr. Arnold P Jones 3

In considering whether discount pricing in the trucking industry is predatory, the Division would suggest particular caution because special factors in this industry can make low prices appear to be below the seller's costs when in fact they are not. Certain types of discounts, including promotional and introductory discounts, by firms that are allowed for the first time to compete for particular traffic by reason of deregulation are specific examples mentioned in the draft report. 5/

With respect to backhaul trips in particular, confusion over whether a trucker is offering below-cost rates is almost inevitable. Trucks typically return to some other location after making a delivery, and flows of traffic in the two directions are not typically equal On low-traffic return trips, the firm incurs the costs of fuel, depreciation, and the driver's time regardless of whether he returns with cargo If the firm has an opportunity to capture traffic moving in the return direction, it can be profitable to carry that traffic at an extremely low rate. In trying to determine whether backhaul rates are below cost, one needs to compare the added revenues with some added cost to the firm of moving this traffic. The incremental costs and revenues connected with the move are the economically relevant measures, and the fact that the rates may be below the firm's "average" cost for both moves does not render them predatory Given the complex network of LTL moves, isolating the round trip moves and associated costs and revenues would be very difficult Additionally, consideration must be given to the value to trucking firms (and their customers) of regular, reliable service. This may mean that movements will occasionally be handled at below the cost of that particular shipment. It is, therefore, not surprising that at times low prices are interpreted as being predatory when in fact they are not

With respect to GAO's review of market concentration, the Division agrees generally with the thrust of its analysis. In a highly concentrated market, a firm could, in theory, believe that it can drive others from the market by pricing below its long-run costs and can later recoup its losses through supracompetitive prices if barriers to entry are high. Even if concentration is high (or, more relevantly, a single firm has a dominant market share), true predation will generally be too risky a strategy, and so will rarely occur

In unconcentrated markets such as exist in the LTL sector, however, discount pricing is not likely to be predatory because such a strategy will be very costly to the firm employing it by

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ow on page 12

5/ See Appendix I, supra note 3, at 11.

Mr. Arnold P Jones 4

reason of foregone lost profits on current traffic Moreover, even if the firm succeeds in driving out some competition, other firms will capture its business when it tries to raise prices above competitive levels in an effort to recoup past losses

The Division would note that GAO looked at both national and regional concentration data on the theory that because LTL trucking is likely to be regional in nature, regional concentration figures should be evaluated. The Division would be more likely to focus on nationwide concentration data. This is because trucking firms in one region can expand their operations relatively easily into other regions. This statement is consistent with the historical evidence reported by GAO. 6/

Now on page 22

In analyzing the degree of concentration in the LTL market, the Division also reviewed the national market share data GAO presents in Appendix II, p. 21, "National Concentration Ratios for Intercity General Freight Trucking," by applying the Herfindahl-Hirschman Index (HHI) of market concentration. See U S. Department of Justice Merger Guidelines, June 14, 1984. The Division considers markets with an HHI below 1000 to be broadly characterized as unconcentrated. We could not calculate a precise HHI from the national data provided by GAO, but we were able to conclude that the HHI would be less than 1000. Thus we concur in GAO's conclusion that the national market is unconcentrated. Given the unconcentrated nature of the LTL market, it is unlikely that individual firms would have the incentive to engage in predatory pricing

CONCLUSION

With the exception of an increased emphasis in some areas as noted above, the Antitrust Division shares the conclusions and analysis the GAO presents in Trucking Regulation: Price Competition and Market Structure in the Trucking Industry. Finally, the Division would reemphasize a point made in GAO's earlier testimony that rate-bureau collective pricing activity poses a much more likely threat to consumer welfare in this industry than does predatory pricing. 7/

* * * * *

Now on pp 18 19

6/ See id. at 17-18.

Now on page 20

7/ Appendix I, supra note 3, at 19.

Mr. Arnold P. Jones 5

We appreciate the opportunity to respond to your report while in draft form Should you have need for any additional information, please feel free to contact me.

Sincerely,

Harry H. Flickinger
Acting Assistant Attorney General
for Administration

Major Contributors to This Report

This report was prepared under the general supervision of Herbert R McLure, Associate Director (275-7783), and JayEtta Z. Hecker, Group Director The primary author of the report was John V. Wells, Project Manager. Staff members Kim F. Coffman and Joseph J. Warren prepared the analysis of market concentration and reviewed complaints to the ICC concerning predatory pricing. The report was edited by Molly MacLeod and typed by Michelle C. Walker.

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