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BY THE COMPTROLLER GENERAL
Report To The Chairman
Committee On The Judiciary
United States Senate
 OF THE UNITED STATES

**ICC Needs To Eliminate
 Improper Leasing Practices
 By Certificated Motor Carriers**

Independent truckers (owner-operators) often lease their trucks and services to Interstate Commerce Commission-certificated carriers in return for a percentage of the shipment's revenue. They may also contract for shipments through truck brokers, who act as middlemen between truckers and shippers. GAO confirmed that owner-operators receive a higher percentage of a shipment's total gross revenue from truck brokers than they receive from certificated carriers. Both GAO and ICC received allegations of improper leasing practices on the part of certificated carriers.



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ICC believes the Motor Carrier Act of 1980 will change leasing and reduce improper practices. GAO agrees. However, because it is not certain that owner-operators will take advantage of the provisions of the new act, GAO believes ICC needs to monitor leasing practices as they evolve under the new legislation.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-201495

The Honorable Edward M. Kennedy
Chairman, Committee on the Judiciary
United States Senate

Dear Mr. Chairman:

As you requested on October 17, 1978, we are reporting on the leasing practices of Interstate Commerce Commission-certificated motor carriers. As requested, we concentrated on determining (1) the extent of leasing in the trucking industry, (2) the differences, if any, in services rendered to owner-operators by certificated carriers and those rendered by agricultural brokers, and (3) the reasonableness of the fees charged for those services. This report recommends that the Chairman, Interstate Commerce Commission, monitor leasing practices as they evolve under the Motor Carrier Act of 1980, to assure that improper leasing practices by certificated motor carriers are eliminated.

The Interstate Commerce Commission reviewed a draft of this report and generally agreed with its contents and recommendation.

As arranged with your office, we are sending copies of this report to the Chairman, Interstate Commerce Commission; the Secretaries of Transportation and Agriculture; the Director, Office of Management and Budget; the President, American Trucking Associations; the President, Association of American Railroads; appropriate Senate and House committees; and other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Aorlan".

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ICC NEEDS TO ELIMINATE
IMPROPER LEASING PRACTICES
BY CERTIFICATED MOTOR
CARRIERS

D I G E S T

"Leasing" in the trucking industry is an arrangement under which a carrier with an Interstate Commerce Commission (ICC) certificate contracts with an independent, noncertificated trucker (owner-operator) to haul regulated freight on routes which only the certificated carrier may legally serve. In return for allowing owner-operators to use their certificates, the certificated carrier retains a percentage of the gross revenue generated by the particular haul, often amounting to 25-35 percent.

(GAO was requested to determine

--the extent of leasing in the trucking industry;

--the differences, if any, in services rendered to owner-operators by ICC-certificated carriers and those rendered by agricultural brokers; and

--the reasonableness of the fees charged for those services.

Available information indicates that about 31 percent of the total miles operated by ICC-certificated motor carriers with annual gross operating revenues of more than \$500,000 were leased during 1979. (see p. 8.)

GAO used two approaches to determine whether leasing fees which certificated motor carriers charge owner-operators were justified by the cost of the services they provide. First, GAO analyzed financial data ICC collects from certificated carriers to determine whether there were significant profitability differences that could be traced

to the use of owner-operators. (See p. 11.) Second, GAO gathered data from truck brokers and certificated carriers to determine whether there were significant differences in the services provided to owner-operators and the costs of providing those services.) (See p. 19.)

Neither approach gave conclusive results. The data ICC collects is not detailed enough to separate certificated carriers' leasing operations from their other activities, and neither truck brokers nor certificated carriers could provide the cost information needed. (See pp. 12 and 23.)

(GAO did confirm that owner-operators receive a higher percentage of a shipment's total gross revenue from truck brokers than they receive from certificated carriers.) GAO found that truck brokers usually charge owner-operators between 10-15 percent of an unregulated shipment's total gross revenue while certificated carriers usually charge at least 25 percent for a regulated shipment. (Certificated carriers claim they keep a greater percentage of the revenue because they provide the owner-operator with more services and incur more costs due to regulation.) Without reliable cost data, GAO could not determine whether these additional services and costs justify all of the difference between the fees charged by certificated carriers and truck brokers. (See pp. 19 through 24.)

LEASING ABUSES OCCURRED UNDER ICC'S REGULATION

Truck brokers and independent owner-operators told of improper leasing practices that have occurred under ICC's regulation, saying that certificated carriers did not pay the right amounts, introduced hidden charges and deductions at settlement, and would not allow drivers the right to examine the freight bill upon which their share of the revenue is based.

ICC found many examples of these abuses in its studies of leasing practices and their

impact on owner-operators. For example, a 1977 ICC study of owner-operator problems stated that only 27 percent of the carriers surveyed provided a rated freight bill or similar information to the owner-operator at settlement. Without actually seeing the freight bill, the owner-operator has no practical way of knowing whether the carrier has improperly reduced the amount due by misstating the weight of a given shipment, the appropriate rate, or the total compensation. ICC identified the same problem in its 1978 and 1979 studies of owner-operators. (See pp. 29 and 30.)

In July 1980, the Congress enacted the Motor Carrier Act of 1980 which, among other things, made it easier for truckers to obtain operating authority from ICC and expanded the type of traffic owner-operators can legally haul. ICC believes that the act will help eliminate abusive leasing practices by (1) giving owner-operators the opportunity to obtain their own operating authority and compete directly with existing certificated carriers for regulated traffic and (2) improving the bargaining position of owner-operators that want to operate under lease to certificated carriers. (See p. 31.)

GAO agrees with ICC that the new legislation may change leasing and eliminate improper certificated carrier practices. However, because of the evidence that improper leasing practices did occur in the past and the uncertainty about whether owner-operators will take advantage of the provisions of the new act, GAO believes that ICC needs to monitor leasing practices as they evolve under the Motor Carrier Act of 1980. (See p. 33.)

RECOMMENDATION

The Chairman, Interstate Commerce Commission, should monitor leasing practices by collecting and analyzing the industry data necessary to determine whether improper leasing practices are continuing under the Motor Carrier Act of 1980. (See p. 33.)

AGENCY COMMENTS

ICC concurred with the report's recommendation and said it will closely monitor the effects of the provisions of the Motor Carrier Act of 1980 on leasing practices.

ICC believes that the provisions of the new law, combined with other actions it has undertaken, should significantly reduce owner-operator problems.

GAO believes that ICC's actions, when completed, will carry out the report's recommendation. (See pp. 24 through 27, and 33 and 34.)

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ABBREVIATIONS

GAO	General Accounting Office
ICC	Interstate Commerce Commission
LTL	less than truckload
TL	truckload

GLOSSARY

Certificates of public convenience and necessity

Provide common carriers with the authority to operate in the regulated market and make certain services available to all shippers. Certificates are granted by ICC only upon demonstration that an unsatisfied public need exists for the services to be performed and that the applicant is fit, willing, and able to perform it. Certificates are restrictive as to territory, routes, services, and commodities to be carried.

Common carrier

A transportation business that offers service to the general public. Interstate common carriers must hold a certificate issued by ICC that limits service to a specific geographical area.

Contract carrier

A transportation business that offers service to a designated group of customers. Interstate contract carriers must hold a certificate issued by ICC.

Exempt commodities

Commodities whose interstate movement by truck is not subject to ICC regulation.

Freight bill

Document for a common carrier shipment describing the freight, its weight, amount of charges and taxes, and whether they should be collected or have been prepaid.

Less than truckload (LTL)

A quantity of freight less than that required to qualify for of a truckload rate; typically less than 10,000 pounds.

Lease	An arrangement under which an ICC-certificated carrier contracts with an owner-operator to haul regulated freight on routes which only the certificated carrier may legally serve.
Owner-operator	Generally people who (1) own the trucks they drive, (2) do not possess ICC operating authority, and (3) provide intercity, truckload service.
Private carrier	A company that operates its own trucks to transport its own freight.
Ton-mile	One ton carried 1 mile. A measure of the output or work done in transportation operations.
Trip lease	A lease arrangement between an owner-operator and a certificated carrier covering only one trip.
Truck broker	Someone who arranges exempt loads between shippers and owner-operators (and others), usually charging a percentage of the revenue from the load as a fee.
Truckload (TL)	Quantity of freight required to fill a truck. When used in connection with freight rates, the quantity of freight necessary to qualify a shipment for a truckload rate; usually over 10,000 pounds.

CHAPTER 1

INTRODUCTION

In October 1978, the Chairman, Subcommittee on Antitrust and Monopoly, Senate Committee on the Judiciary, asked us to determine:

--the extent of leasing in the trucking industry.

--the differences, if any, in services rendered to owner-operators by ICC-certificated carriers and those rendered by agricultural brokers.

--the reasonableness of the fees charged for those services as well as any observed disparity.

"Leasing" in the trucking industry is an arrangement under which a certificated carrier contracts with an owner-operator (independent, noncertificated trucker) to haul regulated freight on routes which only the certificated carrier may legally serve. In return for allowing owner-operators to use their certificates, the certificated carrier retains a percentage of the gross revenue generated by the particular haul, often amounting to 25-35 percent. The chairman believed that the fact that owner-operators may still have been able to earn sufficient profit while receiving only 65-75 percent of the revenue from the load indicated that regulated rates may be substantially higher than they would be without regulation. (See app. I.)

STRUCTURE OF THE MOTOR CARRIER INDUSTRY

The interstate motor carrier industry is divided into three major segments: (1) regulated carriers, (2) private carriers, and (3) exempt carriers. The Interstate Commerce Commission (ICC) estimates that total intercity truck movement by these carriers in 1978 was 602 billion ton-miles. Regulated carriers produced 265 billion ton-miles, or about 44 percent of the total.

ICC certificates two kinds of regulated carriers: common and contract. These carriers are divided into three classes based upon revenues ¹/ as follows: Class I, over \$3 million; Class II, \$500,000 to \$3 million; and Class III,

¹/Subsequent to our review ICC revised the revenue levels as follows: Class I, over \$5 million; Class II, \$1 million to \$5 million; and Class III, less than \$1 million.

less than \$500,000. Common carriers make certain services available to all shippers and are subdivided into those that carry general freight, specialized goods, and household goods. There are more specialized carriers (including household goods carriers) than general freight carriers. Specialized carriers handle more tonnage than general freight carriers and log approximately an equal number of miles. However, general freight carriers earn two-thirds of industry revenue, have two-thirds of the assets and equipment, employ almost 80 percent of the people, and earn 70 percent of the net income. General freight carriers generally carry small shipments in consolidated lots, while specialized carriers generally provide point-to-point service in truckload lots. Contract carriers, on the other hand, enter into continuing contracts with individual shippers and dedicate equipment or provide services designed to meet the specific needs of those shippers.

The unregulated sector of the industry accounts for 56 percent of the total ton-miles and consists of private and exempt carriers. Private carriers are mainly the fleets of companies that are not primarily in the transportation business. They carry their own commodities and do not offer their services for hire. Exempt carriers haul (for hire) commodities exempted from regulation by ICC, primarily agricultural and horticultural goods.

ROLE OF THE OWNER-OPERATOR

Owner-operators are generally people who (1) own the trucks they drive, (2) do not possess ICC operating authority, and (3) provide intercity, truckload service. Most industry observers estimate that there are approximately 100,000 owner-operators and that they provide somewhere between 25 and 40 percent of the intercity truck transportation in the United States.

Owner-operators currently work in two distinct markets: regulated commodities and exempt commodities. Although owner-operators do not possess ICC operating rights, they can haul ICC-regulated commodities by using a certificated carrier's authority. ICC leasing regulations permit owner-operators to lease themselves and their equipment to an authorized carrier for a minimum of 30 days. Under ICC's leasing rules, certificated carriers may also "trip lease" drivers and equipment to each other, as long as the trip is in the direction of a point which the lessee is permitted to serve.

Owner-operators can also haul exempt commodities, for which they are free to make any arrangements the market requires. Some owner-operators choose to solicit exempt freight directly from shippers, while others pay a percentage of their revenue to truck brokers to solicit freight and for other services such as billing and collecting. However, if an owner-operator is under lease to an ICC-certificated carrier who also can carry exempt goods, the owner-operator can legally haul exempt goods only if the carrier approves.

SERVICES PROVIDED TO OWNER-OPERATORS BY CERTIFICATED CARRIERS AND TRUCK BROKERS

Besides making it possible for the owner-operator to haul regulated goods, certificated carriers also provide a broad range of business services. These include preparing, publishing, and filing rate tariffs with ICC; complying with licensing and other legal requirements; rating, billing, and collecting freight charges from customers; complying with safety requirements; negotiating claim settlements; purchasing general liability and cargo insurance; providing offices, terminals, and equipment; dispatching; and soliciting traffic. Carriers incur costs for providing these services which they recover by retaining a portion of the revenue generated by the haul. This "leasing fee" is usually computed as a percentage of the haul's total gross revenue, but it can also be a flat rate or computed in cents per mile depending on the lease agreement.

Truck brokers secure trucks for shippers and loads for truckers and negotiate the transportation rates to be charged. Truck brokers also provide many other services to owner-operators, similar to certificated carriers. In return for these services, the truck broker receives a "brokerage fee" which is usually a percentage of the negotiated transportation charge paid to the trucker but, like the certificated carrier leasing fee, it can also be based on cents per mile or a flat rate.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was directed primarily at determining the reasonableness of leasing fees charged independent owner-operators by ICC-certificated motor carriers. We used two different approaches: (1) analyzing existing ICC data on certificated motor carriers and (2) collecting and analyzing additional data from certificated motor carriers and truck brokers.

In analyzing existing ICC data on certificated motor carriers, we used the 1978 motor carrier annual reports filed

with ICC and published by the American Trucking Associations on computer magnetic tape. This data tape contained detailed balance sheet, income statement, and operating statistics for Class I and Class II certificated motor carriers.

We examined financial and operational data from this tape to test whether motor carrier profitability was directly related to motor carriers' use of independent owner-operators. Our hypothesis was that profits would be greater for carriers that used large numbers of independent owner-operators because these carriers had more opportunities to benefit from high leasing fees than would those certificated carriers who used independent owner-operators less.

In carrying out our analysis, we calculated the arithmetic mean of carrier operating revenue, expenses, and net income in cents per mile and other measures for 2,090 certificated carriers and tabulated the results by the type of commodity hauled and extent of owner-operator use. (See app. IV for details of tabulation analysis.) We also used the statistical technique of multiple regression analysis to estimate the significance of owner-operator use in determining the revenues, various expenses, and income of 1,588 certificated carriers. (See app. V for details of regression analysis.)

Our analysis of existing ICC data proved inconclusive because of two basic limitations. First, carriers file only aggregate financial and operational data with ICC, and thus the information on the data tape could not separate carrier profit, revenue, and expenses incurred in leasing operations from other activities. Second, there are significant differences in the operations of carriers who use owner-operators extensively and those who mainly use company drivers. Carriers who use owner-operators generally haul low-rated commodities in truckload lots and do not incur the high operating expenses characteristic of less-than-truckload operations. Therefore, factors such as revenue per load are decidedly different for carriers who use owner-operators extensively compared with those who do not.

Our second approach to the review involved collecting and analyzing data from certificated carriers who lease and truck brokers who use owner-operators to haul exempt commodities. By using questionnaires, we planned to collect data on the fees charged, costs incurred, and services provided to owner-operators and then compare the results to determine the reasonableness of the certificated carrier leasing fee structure. To obtain a high response rate

and candid answers from carriers and brokers, we pledged confidentially to those responding to the questionnaire.

In carrying out this approach, we:

- Identified a universe of 1,051 potential truck brokers from a number of industry publications. Using mailgrams, we selected 665 firms which were headquarters operations still in existence and which brokered exempt goods during 1979. (See app. II.)
- Mailed questionnaires to 665 truck brokers requesting both financial and operational data and analyzed the results of 288 usable responses. (See app. III.)
- Interviewed and reviewed records and various documents of a number of certificated carriers, owner-operators, and truck brokers in Maryland, Delaware, and Virginia. We also contacted a number of trucking and related associations including the American Trucking Associations, the United Fresh Fruit and Vegetable Association, the Western Truck Brokers and Exempt Carriers Association, and the Association of American Railroads.
- Interviewed officials from the Department of Transportation, the Department of Agriculture, and ICC and obtained and reviewed pertinent records, regulations, and legislation.

We did not complete our data collection project from certificated carriers for the following reasons. First, only 48 percent of the truck brokers responding to our questionnaire provided usable data making any projection of survey results to the entire population of truck brokers unreliable. Second, truck brokers and certificated carriers could not provide us with accurate data on the costs they incur in providing various services to owner-operators. As a result we could not reliably assess whether differences in the cost of services provided justified the difference in the fees charged owner-operators. Finally, on July 1, 1980, the Congress passed the Motor Carrier Act of 1980 which ICC believes will change certificated carrier leasing practices. ICC stated that the new act will make it easier for owner-operators to obtain operating authority and either compete with existing carriers or improve their bargaining position.

Throughout this review we sought and obtained expert assistance from the transportation industry, academia, and other Federal agencies including the Department of Transportation, the Department of Agriculture, and ICC.

CHAPTER 2

LEASING IN THE MOTOR CARRIER INDUSTRY

Nobody knows exactly how much leasing occurs throughout the motor carrier industry. However, available information indicates that about 31 percent of the total miles operated by ICC-certificated Class I and Class II motor carriers were leased during 1979. Most of these miles were reported by specialized carriers because they haul truckload traffic.

Our analysis of the financial data ICC collects from certificated carriers did not show that profits were higher for carriers that used owner-operators most frequently. Data we collected from truck brokers and certificated carriers did confirm that owner-operators received a higher percentage of a shipment's total gross revenue from truck brokers than they received from certificated carriers. Certificated carriers claim they keep a greater percentage of the revenue because they provide the owner-operator with more services and incur more costs due to regulation. Because neither truck brokers nor certificated carriers could provide us with reliable cost data, we could not determine whether these additional services and costs justify all the difference between fees charged.

EXTENT OF LEASING IN THE MOTOR CARRIER INDUSTRY

ICC requires all Class I and Class II motor carriers to report, among other things, the total number of miles they operated during each year in four different categories, including

- total miles in own vehicles;
- total miles with vehicle and driver rented;
- total miles in vehicle rented without driver;
- total miles by rail, water, or air.

The category entitled "total miles with vehicle and driver rented" represents a carrier's leased miles. It does not, however, represent a grand total of leased miles for all ICC-certificated motor carriers, because it does not include data on Class III motor carriers--those receiving annual revenues of less than \$500,000. (See footnote on p. 1.) In addition, some Class I and Class II carriers file their reports late or file inconsistent or incomplete data. The category also includes miles leased with equipment and driver of another certificated carrier, not only owner-operators.

Leasing by certificated carriers

During 1979, "Trinc's Blue Book of the Trucking Industry," a yearly publication prepared by Trinc Transportation Consultants, a Division of Dun and Bradstreet, Inc., reported that there were approximately 2,869 Class I and Class II ICC-certificated motor carriers in the United States. This figure included 929 general freight carriers, 1,716 specialized carriers, and 224 carriers of household goods. Trinc uses certificated carrier annual reports filed with ICC as the source of this information. These carriers reported that in transporting property they traveled a total of about 19.5 billion miles of which approximately 6.1 billion, or 31 percent, were miles operated by leased vehicles and drivers.

Type of Vehicle Miles Reported by 2,869
Class I and Class II Carriers During 1979

<u>Type of vehicle operated</u>	<u>Number of miles</u>	<u>Percentage</u>
	(000 omitted)	
Own vehicle	10,574,880	54
Vehicle rented with driver	6,105,256	31
Vehicle rented without driver	2,741,116	14
Rail, water, and air miles	<u>110,629</u>	<u>1</u>
Total	<u>19,531,881</u>	<u>100</u>

An examination of total leased miles as a percentage of a carrier's total miles indicates that general freight carriers used leased equipment and drivers for about 15 percent of their miles while household goods carriers operated with leased equipment and drivers for almost 92 percent of their miles. Specialized carriers, who generally haul a particular commodity requiring a particular type of equipment (for example, tank trucks hauling petroleum products), used leased equipment and drivers on 41 percent of their total miles.

Leased Miles During 1979 as a Percentage
of Total Miles by Type of Carrier

<u>Type of carrier</u>	<u>Miles with vehicle and driver leased</u>	<u>Leased miles as a per- centage of total miles</u>
	(000 omitted)	
General freight	1,353,978	15
Specialized	4,031,225	41
Household goods	720,053	92

The preceding chart also shows that although household goods carriers have the highest percentage of leased miles to total miles operated, specialized carriers have approximately 5-1/2 times more actual leased miles. General freight carriers, while having only a small percentage of leased miles to total miles, also have considerably more actual leased miles than household goods carriers.

Leased Miles by Type of
Carrier for 1979

<u>Type of carrier</u>	<u>Leased miles</u>	<u>Percent of total leased miles</u>
	(000 omitted)	
General freight	1,353,978	22
Specialized carriers	4,031,225	66
Household goods	<u>720,053</u>	<u>12</u>
Total leased miles	<u>6,105,256</u>	<u>100</u>

Specialized carriers moving refrigerated and agricultural products, and building materials used leased equipment and drivers the most during 1979.

Specialized Carrier Leased Miles
as a Percentage of Total Miles by
Type of Commodity Hauled During 1979

<u>Type of vehicle miles operated</u>	<u>Petroleum products</u>	<u>Refrigerated products</u>	<u>Agricultural products</u>	<u>Motor vehicles</u>	<u>Building materials</u>
	----- (percent) -----				
Own vehicles	55	22	58	74	42
Rented with driver	27	56	35	4	51
Rented without driver	<u>18</u>	<u>22</u>	<u>7</u>	<u>22</u>	<u>7</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Correlation of leased miles and
carrier operations

As explained in chapter 1, the federally regulated segment of trucking can be divided into common carriers and contract carriers. Common carriers can be further divided into regular-route carriers of general freight and irregular-route carriers of a variety of special commodities including household goods, heavy machinery, petroleum, refrigerated products (regulated portion), agricultural products (regulated portion), motor vehicles, building materials, and others. The regular-route carriers provide service between specific points over fixed routes, while irregular-route carriers serve general areas. The distinction stems from the operating rights granted to the carriers by ICC.

Special commodities carriers are primarily truckload (TL) carriers, while general freight carriers are mainly less-than-truckload (LTL) carriers. Carriers that operate irregular-route service generally minimize terminal (consolidation) operations and concentrate on TL traffic--shipments from one shipper to one consignee large enough to fill a truck. ICC has defined these shipments as those over 10,000 pounds. Regular-route carriers typically handle LTL shipments. The assembly of LTL shipments into lots for economical intercity movement is done at terminal facilities at fixed locations and generally implies a pickup and delivery service for shipments of LTL size.

Owner-operators specialize in TL traffic. A TL operation requires no fixed investment in terminals; no employees for loading, sorting, and unloading; and little administrative control. The operation is essentially a simple one of loading at the shipper's dock (a task perhaps performed by the shipper's employees), driving to the consignee, and unloading (which may be performed by the receiver's employees).

The LTL sector of the regulated commodities market--involving extensive pickup, delivery, platform, and terminal operations--is handled almost entirely by unionized company drivers.

The level of owner-operator use varies among specialized carriers, reflecting the peculiar characteristics of the commodity. For example, the household goods movement industry uses owner-operators frequently because it is highly seasonal and does not involve regular routes, which company drivers prefer. Other examples of commodities carried frequently by owner-operators are building materials, because industry demands are sporadic, and agricultural products, because they are associated with empty backhauls. Using owner-operators allows carriers to expand capacity rapidly at little cost and even less financial risk by eliminating capital equipment acquisition and maintenance costs, which are borne by the owner-operator.

On the other hand, general freight carriers with their LTL operations lease equipment and drivers for only about 15 percent of their miles. Even this amount probably reflects significant special commodity division activity by the general freight carriers rather than the use of leased owner-operators in their main LTL business. General freight carriers sometimes establish special commodity divisions so they can carry traffic at lower rates than they could otherwise offer because of the unionized company driver wage structure, which is substantially higher than costs incurred by using owner-operators. In order to establish these divisions, the carriers usually agree with the union to use owner-operators only for certain commodities and to contribute to the union health and welfare payments.

EFFECTS OF OWNER-OPERATOR USAGE ON CERTIFICATED CARRIER PROFITABILITY

We analyzed data ICC collects on Class I and Class II certificated carrier revenues, expenses, and operating characteristics, comparing the profitability of groups of certificated carriers with the extent they used owner-operators. Our hypothesis was that profitability would be

greater for carriers that used large numbers of owner-operators because these carriers had more opportunities to benefit from high leasing fees than would those certificated carriers who used owner-operators less. This hypothesis was based on the premise that certificated carriers can exploit an owner-operator's limited choice of shipments and that unionized carriers, with large investments in equipment and LTL operations, cannot easily switch to owner-operator use if it is more profitable.

Our results were not conclusive. The data ICC collects is not sufficiently detailed to separate certificated carriers' leasing operations from their other activities. Therefore, we could not directly determine what revenues and costs were attributable to owner-operator leasing and could not accurately gauge resulting profits. In addition, the operations of carriers who use company drivers most of the time are significantly different from the operations of carriers who primarily use owner-operators. Owner-operators specialize in TL traffic, consisting mainly of low-rated commodities handled by specialized carriers. The large LTL sector of the regulated commodities market, involving extensive pickup, delivery, platform, and terminal operations, is handled almost entirely by unionized company drivers employed by general commodity carriers. Thus owner-operators deal with different carriers, haul different commodities, generate different revenue, and incur different expenses than company drivers.

Our indirect analysis of certificated carrier profitability did not show that profits were higher for carriers that used owner-operators most frequently.

Methodology

We used the American Trucking Associations' 1978 data tape on Class I and Class II certificated motor carriers containing basic financial and operational data reported to ICC by 3,035 certificated carriers--slightly fewer than the total universe because some carriers filed late or not at all. This data base did not contain any Class III carriers--those receiving annual revenues of less than \$500,000. (See footnote on p. 1.)

We deleted the following carriers from the original data base of 3,035:

- All household goods carriers.
- All local carriers.

--All carriers whose major balance sheet and expense account totals did not balance as filed.

--Certain carriers on the basis of commodity hauled.

These deletions left us with a revised data base of 2,104 certificated carriers, which ICC classified as the following types of carriers based on the greatest percentage of revenue received from commodities hauled.

General freight	Agricultural commodities
Heavy machinery	Motor vehicles
Petroleum products	Building materials
Refrigerated products	Other commodities

This data base was further categorized by extent of owner-operator usage. We divided a carrier's "intercity miles with vehicle and driver rented" by the carrier's "total intercity miles." The following five groups were established:

Group 1 = owner-operator's drive	0 - 5% of total miles
Group 2 = owner-operator's drive	5 - 30% of total miles
Group 3 = owner-operator's drive	30 - 60% of total miles
Group 4 = owner-operator's drive	60 - 90% of total miles
Group 5 = owner-operator's drive	90 - 100% of total miles

We then determined how operating revenue, expenses, and income varied among these five categories and eight commodity groups. We used several profitability indicators such as rate of return on revenue, rate of return on equity, rate of return on capital, and operating income per hundred ton-miles. First, we tabulated the data. For example, we calculated the average net operating income per hundred ton-miles for each of the eight commodity groups by the five owner-operator use groups. We then compared owner-operator use and carrier net operating income while controlling for other factors that could influence profits. We controlled for other factors by using regression analysis, a statistical technique for measuring relationships among variables.

Besides owner-operator use, other variables which might affect certificated carrier profitability include:

- Average length of haul (in miles).
- Average load (in tons).
- Total revenue.
- ICC region where the carrier is based.

Total revenue is a measure of a carrier's size and is included because profitability might be affected by economies or diseconomies of scale. We controlled for the region

because of possible variations in types of roads, regional wages, interest rates, and such other miscellaneous operating characteristics as empty backhauls. Some factors, such as management efficiency, could not be controlled for in the regression analysis.

Tabulation results

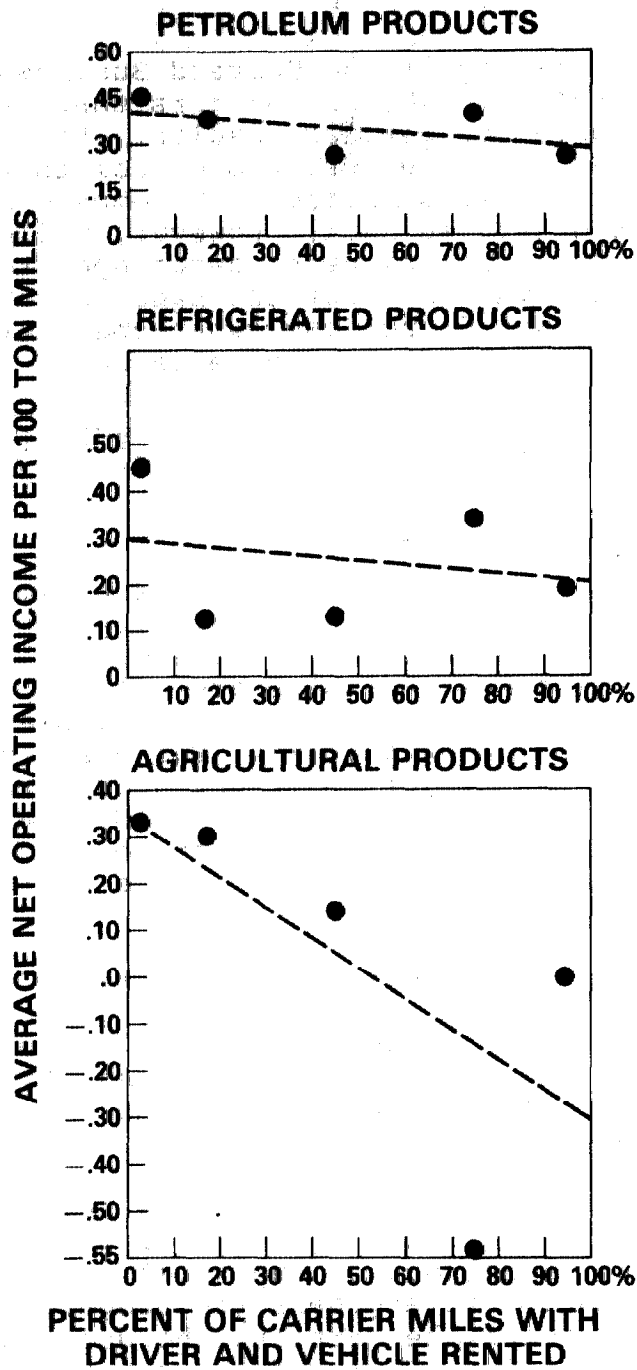
A comparison of the unadjusted statistics shows that in all eight commodity groups profitability decreased as owner-operator use increased. This result was the opposite of our hypothesis, which suggested that profits would be higher if owner-operator use was higher. Table 1 shows the average operating income in dollars per hundred ton-mile for the eight commodity groups by level of owner-operator use. Table 2 presents graphs of three of the commodity groups. Appendix IV shows the relationship between average operating revenue, expenses, and income by five categories of owner-operator use for carriers of eight different commodities.

Table 1

Comparison of Carriers' Average Operating Income or Loss
with Owner-Operator Usage

<u>Commodity group</u>	<u>Percent of owner-operator miles</u>				
	<u>0-5</u>	<u>5-30</u>	<u>30-60</u>	<u>60-90</u>	<u>90-100</u>
	----- (dollars per 100 ton-mile) -----				
Agricultural commodities	0.33	0.30	0.14	-0.54	0.00
Refrigerated products	0.45	0.12	0.13	0.34	0.19
Petroleum products	0.46	0.37	0.26	0.39	0.26
General freight	1.20	0.58	0.95	0.43	0.29
Heavy machinery	1.07	0.18	0.29	0.74	0.07
Motor vehicles	0.80	1.34	-	0.32	0.75
Building materials	0.27	0.42	0.27	0.24	0.12
Other commodities	0.56	0.38	0.44	0.29	0.35
All groups	0.87	0.45	0.48	0.27	0.27

TABLE 2
COMPARISON OF NET OPERATING INCOME BY EXTENT OF OWNER-OPERATOR
USE FOR THREE SPECIALIZED CARRIERS



Our analysis showed that, generally, revenues per mile were highest for the certificated carriers that used owner-operators the least. Table 3 shows the average operating revenues, total expenses, and linehaul expenses per mile in three commodity groups for carriers that seldom use owner-operators (0-5 percent) and those that use them frequently (90-100 percent).

Dr. D. H. Maister of the Harvard Business School has analyzed the profitability of carriers that use owner-operators and obtained similar results. He states that since owner-operators are more economical to use than unionized drivers, they allow carriers to compete for traffic they would not otherwise haul. However, while capital investment is lower for carriers using owner-operators, lower profits are also available for the same volume of traffic because carriers who do not use owner-operators haul higher rated commodities and generate more revenue. Dr. Maister concludes that it is not the carriers that reap the benefits of owner-operator use in the form of higher profits, but the shippers in the form of lower freight rates.

Regression analysis results

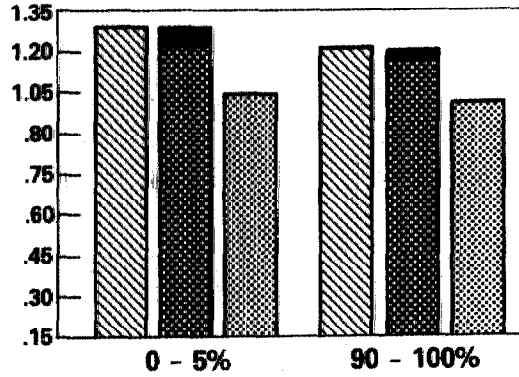
Our regression analysis results were similar to what the simpler tabulations showed; profitability was not higher for carriers who used owner-operators the most. Regression analysis describes how variables are related. A positive number in the results shows that one variable changes in the same direction as another. For example, if profits were larger for the larger owner-operator users, or smaller for the smaller users, the results would have positive signs. The converse would be a negative relationship; for example, larger owner-operator users would have smaller profits.

Table 4 shows the relationships between three profitability ratios and owner-operator use. There are a total of 13 minus signs and 11 positive signs, which means that the regression analysis more often showed carrier profitability decreasing as owner-operator use increased rather than the opposite.

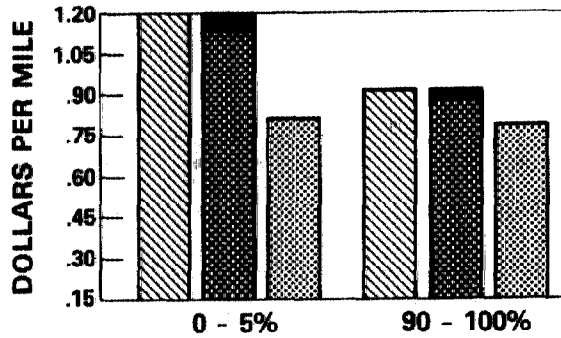
Table 4 also indicates whether the relationships are statistically significant. Only one of the positive signs is significant, while four of the negative signs are significant. This factor strengthens the suggestion that profitability is lower for the carriers who use owner-operators most frequently. (App. V provides the technical details of our regression analysis, including the regression coefficients and all variables considered in the analysis.)

TABLE 3
COMPARISON OF MAJOR FINANCIAL ACCOUNTS BY EXTENT OF OWNER-OPERATOR USE FOR THREE SPECIALIZED CARRIERS

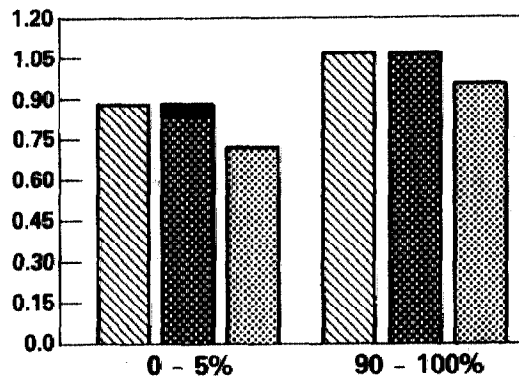
PETROLEUM PRODUCTS



REFRIGERATED PRODUCTS



AGRICULTURAL COMMODITIES



PERCENTAGE OF CARRIER MILES WITH DRIVER AND VEHICLE RENTED

LEGEND

- | | |
|---|---|
|  AVERAGE TOTAL REVENUE PER MILE |  AVERAGE LINEHAUL EXPENSE PER MILE |
|  AVERAGE TOTAL EXPENSES PER MILE |  AVERAGE NET OPERATING INCOME PER MILE |

Table 4

Relationship Between Owner-Operator Usage
and Various Profitability Ratios

<u>Commodity group</u>	<u>Rate of return on revenue</u>		<u>Rate of return on equity</u>		<u>Rate of return on capital</u>	
	<u>Direction (note a)</u>	<u>Significant (note b)</u>	<u>Direction</u>	<u>Significant</u>	<u>Direction</u>	<u>Significant</u>
General freight	-	No	-	No	+	No
Heavy machinery	-	No	+	No	-	No
Petroleum products	-	No	+	No	+	No
Refrigerated products	-	Yes	-	No	+	No
Agricultural commodities	-	Yes	+	No	-	Yes
Motor vehicles	+	No	+	No	+	Yes
Building materials	-	Yes	+	No	-	No
Other commodities	-	No	-	No	+	No

a/ - Indicates profitability measure moves in the opposite direction of percentage of owner-operator miles

+ Indicates profitability measure moves in the same direction of percentage of owner-operator miles

b/Significant at the 10-percent level. (Owner-operator usage is judged important in determining the profitability ratio with a risk of being wrong 10 percent of the time.)

COMPARISON OF TRUCK BROKER AND CERTIFICATED
CARRIER FEES, SERVICES, AND COSTS

Because our analysis of existing ICC data was inconclusive, we attempted to collect additional data on fees charged, services provided, and costs incurred from truck brokers and certificated carriers who use owner-operators. We sent questionnaires to 665 truck brokers identified from various sources, but the response rate from our survey was too low to reliably project the results to the activities of all brokers. Only 355 (53 percent) of the 665 brokers contacted responded to our questionnaire despite repeated followups. Of these respondents, only 288 (48 percent of the adjusted universe) provided valid, usable data. In addition, neither truck brokers nor certificated carriers were able to provide accurate data on the costs they incur for the services they provide owner-operators. As a result, we could not reliably assess whether the differences in the costs of services provided justify the differences in the fees charged owner-operators. (Apps. II and III explain our questionnaire methodology in detail.)

Comparison of fees
charged owner-operators

Our work confirmed that the fees certificated carriers charge owner-operators to haul regulated goods are higher than the fees charged by truck brokers in the exempt market. In our survey of truck brokers, we asked for data on the usual brokerage fee brokers charged when they arranged for owner-operators to haul either regulated or exempt commodities.

Our results show that most truck brokers charged owner-operators between 10 and 15 percent of the gross revenue for an exempt load and between 15 and 20 percent for a regulated load.

One hundred of the brokers responding to our questionnaire arranged for shipments of regulated goods. Brokers can do this in several different ways:

- Twenty-nine had their own ICC certificate.
- Forty-three used someone else's ICC certificate (the broker acts as a carrier's agent).
- Sixteen used an exemption granted to an agricultural cooperative.
- Twelve used some other arrangement.

The following table shows the average brokerage fees charged to owner-operators by the 288 truck brokers providing usable responses to our survey. The fees are weighted averages based on a percentage of the haul's total gross revenue. Ninety-nine percent of the brokers that responded to our questionnaire used this method to compute their fee.

Average Brokerage Fee as a Percentage of
Revenue Charged Owner-Operators During 1979

<u>Type of fee</u>	<u>Regulated load</u>	<u>Exempt load</u>
	(percent)	
Brokerage fee without an advance and without a trailer	15	10
Brokerage fee with an advance to driver	15	11
Brokerage fee with a broker/shipper-supplied trailer	20	13
Brokerage fee with an advance and a trailer	18	15

Like brokers, most certificated carriers pay owner-operators a fixed percentage of the haul's total gross revenue. The average owner-operator receives approximately 75 percent ¹/_{of a load's revenue} for providing the certificated carrier with driver, tractor, and trailer. However, there are significant variations to this percentage.

ICC studies reported that owner-operators receive from 50 to 90 percent of the haul's revenue from the certificated carriers, while DOT studies showed a range of 50 to 80 percent. These wide variations in compensation are the result of many factors, including the type of commodity hauled and the extent of the services provided by the carrier to the

¹/This percentage does not include the fuel surcharge instituted by ICC in 1978 which is paid by carriers directly to owner-operators hauling regulated commodities. As of November 1980, this fuel surcharge was set at 13 percent of a shipment's revenue for TL shipments and 2.3 percent of revenue for LTL shipments.

owner-operator. For example, a carrier who needs an owner-operator to move a low-rated commodity might have to offer a larger percentage of gross revenue to attract owner-operators away from carriers offering higher rated commodities. Compensation variations can also result from differences in the quality of owner-operators. A driver with a record of traffic violations would represent a large insurance risk for a carrier and might have to accept lower compensation. Some carriers pay all road taxes and permit fees and supply personal liability and property damage insurance while paying a lower percentage of the revenue to the owner-operator.

Carriers of household goods usually have a low percentage of compensation--50 to 60 percent of total gross revenue--because they rely on agents, who receive between 16 and 25 percent of the revenue, to solicit traffic and obtain drivers. Finally, variations in compensation occur when carriers are required by union contract to pay more or less than market rates. For example, a specific commodity agreement, supplemental to the International Brotherhood of Teamsters National Master Freight Agreement, stipulates that an owner-operator can receive 29 percent of the haul's gross revenue for providing the driver, an additional 33 percent for providing a tractor, and an additional 13 percent for providing a trailer.

Comparison of services provided owner-operators

Certificated carriers say they provide considerable services to owner-operators in return for the fees they charge, including advances, assistance in obtaining backhauls, safety inspections, cargo insurance, personal liability insurance, collision insurance, etc. We found that many truck brokers appear to provide most of the important services performed by certificated carriers for less than half the fee they charge.

Brokers basically provide a market clearing function. They put shippers and carriers in contact with each other and perform billing and collecting, thus providing the most important services certificated carriers provide. In addition, brokers often provide owner-operators other services such as equipment safety checks; advance money; and information on State length, weight, and permit restrictions. Many brokers also provide personal liability and property damage insurance and cargo insurance.

In our survey, we provided truck brokers with a list of some of the most common services certificated carriers

say they provide to leased owner-operators. The following tables show how frequently truck brokers provided any or all of these services to owner-operators when they arranged for trips of both regulated and exempt goods.

Percent of Truck Brokers Offering Services
Always or Most of the Time to Owner-Operators
During 1979

<u>Services offered by carriers</u>	<u>Percent of brokers offering service always or most of the time</u>	
	<u>Regulated load</u>	<u>Exempt load</u>
Advances	69	75
Assistance in obtaining backhauls	53	39
Safety inspections	65	26
Cargo insurance	60	47
Personal liability insurance	40	20
Property damage insurance	44	23
Collision insurance	15	7
Workmen's compensation	31	11
Bookkeeping (billing, collecting, etc.)	77	73
Negotiation of claims	74	74
Federal and State reporting requirements	46	22
Preparation, publication, and filing of rates or tariffs	41	21
Communication network (dispatching, telephones, teletypes, etc.)	94	92
Solicitation of traffic (sales)	78	82
State operating requirements (permits, fees, licenses, etc.)	49	19
Other services	1	3

The above table indicates that truck brokers do not always provide all the services to owner-operators that certificated carriers say they always provide. This factor seems to support the certificated carrier's contention that its higher fees are at least partially justified by additional services. However, the fact that truck brokers can successfully move regulated goods without providing owner-operators all of these services suggests that some of the services certificated carriers provide may not always be needed.

Comparison of costs incurred by
certificated carriers and truck brokers

Neither truck brokers nor certificated carriers could provide us with accurate data on the costs they incur for the services they provide to owner-operators. Truck brokers stated that their accounting records would not accurately reflect the cost of particular services, such as assisting an owner-operator in obtaining a backhaul, because the cost for this service would be reflected in communication expenses, salaries, and general overhead, not in an account for backhaul assistance. However, most brokers contacted during our survey estimated that the major expenses they incur are for telephones, advances to truckers, and salaries.

Many brokers mentioned that they have high telephone costs because they must frequently contact shippers, drivers, and other brokers regarding shipments and rates. Truckers also call collect regarding possible loads and may be required to telephone enroute regarding location and/or equipment breakdowns.

The cash-flow costs to brokers are also substantial. Advances to truckers and payments to truckers when delivery receipts are returned often involves substantial amounts that the broker will not receive from the consignee for varying periods of time. Some brokers stated that they feel they are primarily in the finance business. Salaries for dispatchers who arrange the loads and clerical employees who are responsible for the bookkeeping, also make up a major cost in the broker's operations. These major expenses correlate with the primary services that truck brokers we surveyed said they provided owner-operators.

Certificated carriers also told us that accounting and costing methods in the industry make it difficult for them to directly account for the costs they incur in providing various services to owner-operators. Carriers stated that many of their cost accounts, such as marketing, did not segregate owner-operator operations from other activities. If such separations did exist, costs were often allocated proportionately to the amount of revenue generated, not by actual expenses incurred.

Certificated carriers do incur costs induced by regulation that truck brokers working with exempt goods do not. Certificated carriers are required by regulation to provide safety inspections; obtain minimum levels of cargo insurance; report various financial and operational data to ICC; and prepare, publish, and file rates and tariffs each year. Without reliable cost data we could not determine whether

these additional services and costs induced by regulation justify the higher fees charged by certificated carriers. Our study was a series of attempts to try to answer this key question. It was impossible for us to do so.

CONCLUSIONS

Although about 31 percent of all Class I and Class II certificated carrier miles were leased during 1979, we could not conclusively determine whether the leasing fees that certificated carriers charge owner-operators were reasonable.

Our indirect analysis of certificated carrier profitability did not show that profits were higher for carriers that used owner-operators most frequently. However, the ICC data we used for this analysis, which was the best data available, was not sufficiently detailed to separate certificated carriers' leasing operations from their other activities. As a result, when we looked at such factors as total operating revenue or net carrier operating income, we were analyzing revenue and profits from all sources, not just what was obtained from leasing operations. This data problem, combined with the fact that the operations of carriers who use company drivers most of the time are significantly different from the operations of carriers who primarily use owner-operators, lead us to conclude that the results of our analysis are not conclusive.

We did confirm that owner-operators receive a higher percentage of a shipment's total gross revenue from truck brokers than they receive from certificated carriers. Certificated carriers claim they keep a greater percentage of a shipment's revenue because they provide the owner-operator with more services. Our work indicated that truck brokers did not always provide all the services to owner-operators that certificated carriers say they always provide. In addition, certificated carriers do incur costs due to regulation that truck brokers working with exempt goods do not. However, neither truck brokers nor certificated carriers were able to provide accurate data on the costs they incur for the services they provide. Without reliable cost data, we could not determine whether these additional services and costs induced by regulation justify the higher fees charged by certificated carriers.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report, ICC agreed that the percentage of revenue charged owner-operators by certificated carriers could be legitimately higher because of differences in services provided or extra regulatory costs. (See app. VII.)

However, ICC believes a third possibility may exist for carriers retaining a higher percentage of a shipment's revenue; that is, the percentage is higher simply because certificated carriers earn revenues which include excess profits. ICC also stated that the amount of money owner-operators receive from certificated carriers may be equal to the amount received from brokers for equal work, but it may appear as a smaller percentage of revenue because rates and revenue are inflated in the regulated sector. ICC believes it cannot be assumed that because the percentage is different, the amount of money is different.

We agree with ICC that the possibility exists that certificated carriers may retain a higher percentage of a shipment's revenue from an owner-operator simply because certificated carriers earn revenues which include excess profits. However, our work, which was not conclusive, did not support this conclusion. As a result, we did not feel that it was necessary to point out the fact that the possibility of excess profits still exists since we neither prove nor disprove this hypothesis.

We also agree with ICC that it cannot be assumed that because the percentage of revenue retained by certificated carriers and brokers is different, the amount of money paid owner-operators is different.

Two factors usually determine the actual amounts of pay received by an owner-operator. First, the amount of revenue generated by a particular shipment. Second, the percentage of that revenue which is retained by the carrier or broker for services provided. Revenue is a function of many variables including type of commodity, rate charged, and distance hauled. The revenue generated by a particular shipment varies significantly both among and between carriers and brokers. The percentage of revenue retained also varies between carriers and brokers; however, within each group, percentages are relatively consistent. As a result, GAO focused its review on determining whether the differences in percentages retained by carriers and brokers were justified by differences in services provided rather than attempting to determine the reasons for the differences in actual amounts paid to owner-operators, which would also involve determining the reasons for different revenue.

ICC also had two comments on our regression analysis. First, ICC stated that if it were true that certificated carriers pay less money to owner-operators than do exempt brokers, and that this difference could not be fully explained by differences in services provided, extra regulatory costs, or excess profits relative to the exempt sector, then the

implication is that carriers are able to somehow collude and exert a degree of monopsony power--the market power which results from the existence of only one or a few buyers. ICC believes the likelihood of this occurring would be small since a large number of certificated carriers would have to cooperate and owner-operators have a large number of brokers to whom they can also sell their services.

Second, ICC stated that even if this situation was presumed to exist, it is not surprising that no positive relationship between profits and use of owner-operators was found in the regression. ICC stated that purchased transportation is only one input into a certificated carrier's production process; equivalent to fuel or capital, for instance. ICC believes firms will have selected the optimal amounts of inputs to maximize their profits, and thus any expected contribution to profits of slightly increasing the use of owner-operators (or any other input) would be zero. ICC stated that it is therefore reasonable that the coefficient on the owner-operator variable is generally insignificant.

We agree with ICC that the likelihood of collusion among carriers is remote and that a more practical explanation for certificated carriers' paying less money to owner-operators than brokers would be differences in services, extra regulatory costs, or excess profits relative to the exempt sector. However, our work did not show that certificated carriers pay less money to owner-operators. We found that carriers retain a higher percentage of a shipment's total revenue, which, as explained above, may still result in owner-operators' receiving equal or more actual dollars than they may receive from a broker who retains a smaller percentage of the total revenue.

We also agree with ICC that one reason the coefficient of the owner-operator use variable was generally insignificant was that companies will have already selected optimal driver input in their production process to maximize profits.

In testing our hypothesis--profitability would be greater for carriers that used large numbers of owner-operators--we realized that such a situation might only be temporary. We agree with ICC that over time, if greater use of owner-operators was perceived to be a means of realizing higher profitability, carriers would respond by adjusting their usage of owner-operators until all carriers found the proper mix of drivers to maximize their profits. At this point, any observable difference in profit rates could not be attributed to the use of owner-operators. It may be the case that this

adjustment process has already occurred. Our regression results would then not be able to detect the increase in profit rates--if any--that could be attributed to the use of owner-operators. However, before testing our hypothesis we also knew that unionized carriers, with large investments in equipment and LTL operations, could not easily switch to owner-operator use even if it were more profitable. As a result, we believed that by testing our hypothesis we could evaluate whether or not owner-operator use was significant in determining carrier profitability based on available factual data and not only in theory.

CHAPTER 3

IMPACT OF MOTOR CARRIER

REGULATORY REFORM LEGISLATION

Truck brokers and owner-operators told us that certificated carrier leasing practices under ICC regulations were often improper. They cited such practices as improper or slow payments, hidden charges and deductions at settlement, and refusal of the right to examine freight bills. ICC, in its studies of leasing practices and their impact on owner-operators, found many examples of these abuses.

On July 1, 1980, the Congress enacted the Motor Carrier Act of 1980 which, among other things, eased entry restrictions to the motor carrier industry and expanded the type of traffic owner-operators can legally haul. ICC believes that these actions will help eliminate abusive certificated carrier leasing practices by (1) allowing owner-operators the opportunity to obtain their own operating authority and compete directly with existing certificated carriers for regulated traffic and (2) improving the bargaining position of owner-operators who want to operate under lease to existing certificated carriers.

We agree with ICC that the new legislation may help eliminate improper leasing practices. However, there is no guarantee that owner-operators will take advantage of the new opportunities provided by the act or that doing so will eliminate all leasing abuses.

REGULATORY ENVIRONMENT

Under the Interstate Commerce Act of 1935, all goods carried by for-hire trucks in interstate commerce were regulated except if the movements were within specified commercial districts of urban areas that cross State boundaries or were goods specifically mentioned as exempt commodities--usually unprocessed agricultural products. A company carrying its own goods was not subject to regulation unless it entered for-hire operations carrying nonexempt products.

Carriers under ICC jurisdiction had to comply with certain regulations on matters of entry into the industry, routes or areas served, commodities handled, rates charged, finances, mergers, and acquisitions. Common carriers were required to obtain certificates of public convenience and necessity to make certain services available to all shippers, and contract carriers were required to obtain a permit to provide prescribed types of contract services to a small

number of shippers. Such certificates were granted by ICC only upon demonstration by the applicant that an unsatisfied public need existed for the services to be performed, and that the applicant was fit, willing, and able to perform that service. However, the certificates were restrictive as to territory, routes, services, and commodities to be carried.

In general, the process of obtaining ICC operating authority was difficult and complex and could involve substantial legal expenses that were beyond the resources of the small-fleet owner such as the owner-operator. While ICC in recent years had taken measures to liberalize entry into the regulated industry and prior to the new legislation had granted approximately 96.7 percent of the applications for operating rights, only 7 percent of these went to new carriers to haul any kind of significant general cargo. Therefore, the owner-operator had two legal options in pursuing business. He could either work entirely in the exempt commodities market or he could act as a contractor under lease to a certificated carrier.

IMPROPER LEASING PRACTICES EXISTED UNDER ICC REGULATIONS

During 1977, 1978, and 1979, ICC undertook a number of studies of the independent trucker segment of the motor carrier industry "to develop an accurate picture of the role of owner-operators as providers of transportation services and of the nature and extent of the difficulties they face." These surveys identified a number of major problems that owner-operators encountered, including

- not receiving proper payment when paid on a percentage of revenue basis,
- slow payment by carriers for completed trips,
- hidden charges and improper deductions at settlement,
- charges for services that were not performed, and
- refusal of the right to examine freight bills at time of settlement.

For example, ICC's 1977 study of owner-operator problems found that only 27 percent of the carriers surveyed provided a rated freight bill or similar information to the owner-operator at settlement. Without actually seeing the freight bill, the owner-operator has no practical way of knowing whether the carrier has improperly reduced the amount

due him by misstating the weight of a given shipment, the appropriate rate, or the total compensation. ICC identified the same problem in its 1978 and 1979 studies of owner-operators. During the course of our work, truck brokers and owner-operators told us of the same improper certificated carrier practices. They also stated that these abuses are seldom reported to the ICC because owner-operators fear that certificated carriers will not provide them with shipments of freight if they know that the owner-operator has filed a formal complaint.

In July 1979, ICC proposed requiring certificated motor carriers that use significant numbers of owner-operators to file a special report on their leasing practices. The report would have requested information concerning

- the type of traffic hauled by owner-operators;
- the method by which owner-operators are paid;
- the location and title of carrier employees or agents who are responsible for preparing owner-operator settlement statements;
- the method by which these employees or agents are paid;
- cost items for which funds were deducted or offset by the carriers from the owner-operators' settlements;
- whether and in what manner detention charges are passed through to the owner-operators;
- information on "lumping" practices--existence and location of consignee facilities where owner-operators are subjected to demands for money in order to enter a plant or loading dock or to unload freight.

ICC stated that the report was designed to spotlight those carriers whose procedures for handling owner-operator compensation and settlement provided a high degree of opportunity for abuse of leasing agreements. ICC added that actual abuse could only be documented through followup investigations by its field personnel.

With the passage of the Motor Carrier Act of 1980, however, ICC has not required carriers to file this report. The new act specifically addresses the lumping issue, requiring that owner-operators be compensated for all costs associated with loading and unloading. ICC believes that other sections of the new legislation, such as revised

entry requirements, will significantly change current leasing practices of certificated carriers and help eliminate owner-operator abuses.

MOTOR CARRIER REGULATORY REFORM LEGISLATION

When considering motor carrier regulatory reform legislation, the Congress intended to increase opportunities for firms in the trucking industry to operate without interference from the Federal Government and to eliminate some of the most anticompetitive aspects of Federal regulation. One of the means the Congress used was to provide new carriers, including owner-operators, increased opportunities to enter the trucking business and to provide existing carriers increased opportunities to expand their operations. The act modifies the traditional public convenience and necessity test to make it easier for common carriers to obtain ICC operating certificates.

The new act requires ICC to grant certificates to an applicant who makes a proper fitness showing--basically a good safety record and adequate insurance--and who presents evidence that the proposed service will provide a useful public purpose. An exception is made only if those persons protesting the application prove to ICC's satisfaction that the proposed service is inconsistent with the public convenience and necessity. In other words, the act creates a presumption that the proposed transportation is in the public interest and requires the protestant to overcome this presumption. Under the prior legislation, the public convenience and necessity test was directed chiefly toward protecting existing carriers from new and unwanted competition. Historically, if existing certificated carriers either performed or offered services similar to those being applied for by a new carrier, the applicant would not be permitted to enter the business.

The new law also establishes qualifications which must be met before a carrier can protest an application. These qualifications require that the protesting carrier have authority to handle the same traffic and has provided such service during the past 12 months or has an application pending before ICC for substantially the same traffic.

ICC believes that this easing of entry restrictions will help eliminate abusive leasing practices in two ways. First, existing firms will have an easier time expanding their operations, which could increase the demand for owner-operator services and require carriers to provide owner-operators with favorable leasing terms in order to attract and maintain their services. Second, if

owner-operators do not like the leasing arrangement they obtain from certificated carriers, the new act provides the owner-operators with the opportunity to get their own operating authority and compete directly with other certificated carriers for the regulated traffic.

Another significant legislative change which ICC believes will affect leasing involves the elimination of the public convenience and necessity test in applications for authority to provide transportation (1) to any community not regularly served by a certificated common motor carrier of property, (2) as a direct substitute for abandoned rail service, (3) for the U.S. Government (other than used household goods, hazardous or secret materials, and sensitive weapons and munitions), (4) of shipments weighing 100 pounds or less if transported in a motor vehicle in which no one package exceeds 100 pounds, and (5) of food or other edible products (including edible byproducts but excluding alcoholic beverages and drugs) intended for human consumption, agricultural limestone, soil conditioners, and agricultural fertilizers.

These changes apply (1) if the transportation is provided by the owner of the motor vehicle, except in emergencies and (2) if, after issuance of the certificate, the transportation (measured by tonnage) does not exceed, annually, the exempt transportation (measured by tonnage) provided by the motor vehicle. In these cases, the act requires ICC only to consider whether or not the applicant meets the fitness test before granting authority to provide such transportation.

In effect, this change expands the number of commodities owner-operators can haul. ICC believes this expansion will provide the owner-operators with an improved bargaining position when negotiating lease agreements with certificated carriers.

These legislative changes combined with other specific requirements of the new act, such as provisions which make it unlawful to coerce a motor vehicle operator to use assistance or to pay for loading or unloading a shipment (lumping), and provisions that allow ICC, in cooperation with the Secretary of Agriculture, to require the use of written contracts governing interstate exempt agricultural moves, should, ICC believes, improve conditions for owner-operators and help reduce improper leasing practices.

To assure that these changes occur, ICC, in conjunction with the Department of Transportation and the Small Business Administration, plans to hold over 200 seminars across

the country to inform owner-operators of their rights under the new legislation. ICC has also established a telephone hotline to monitor individual owner-operator complaints. A record of these complaints will be used to help determine whether improper leasing practices are still occurring.

CONCLUSIONS

We agree with ICC that the new legislation may change leasing and eliminate improper certificated carrier practices. But although the legislation provides owner-operators and other individuals the opportunity to obtain operating rights entitling them to carry regulated goods, there is no guarantee that anyone will take advantage of the new freedoms or whether taking such action will eliminate all improper practices. Because of the evidence that improper leasing practices occurred in the past, we believe ICC needs to monitor leasing practices as they evolve under the 1980 act to ensure that improper practices do not continue.

Ultimately we were unable to arrive at answers for the questions we addressed in our study because the data we needed was not available. ICC's surveys of past leasing practices demonstrate that relying on complaints about abuses to indicate the extent of improper practices is only partially effective and must be supplemented by active monitoring through data collection and analysis. ICC has the authority to collect the data it needs to properly regulate motor carrier leasing--mainly lease agreements, rated freight bills, and settlement sheets. It should decide what data it needs--apart from complaints--to ensure that improper leasing practices do not continue, and it should begin collecting and analyzing it as soon as possible.

RECOMMENDATION

We recommend the Chairman, ICC, monitor leasing practices by collecting and analyzing the industry data necessary to determine whether improper leasing practices are continuing under the Motor Carrier Act of 1980.

AGENCY COMMENTS AND OUR EVALUATION

ICC stated that while it concurs in the report's recommendation that ICC continue to monitor leasing practices, it believes that liberalized general entry criteria and the provision allowing owner-operators to haul food and other edible products subject only to a fitness test should significantly expand owner-operator opportunities and reduce leasing problems. (See app. VII.) ICC stated that it will closely monitor the effects of these two parts of the new

law and noted that it is also undertaking several other actions related to owner-operator problems, including:

- Reopening consideration of its leasing regulations to bring the leasing rules into conformance with recent statutory changes enacted in section 15 of the Motor Carrier Act of 1980.
- Conducting a study of the status of owner-operators as part of the effort to monitor all parts of the Motor Carrier Act of 1980. This study is designed to produce statistically reliable data on, among other things, leasing practices and problems.
- Conducting a series of meetings around the country to serve as owner-operator training sessions. The meetings will cover all aspects of ICC trucking regulation, including leasing, and are designed to inform and educate owner-operators about their position in the new environment created by the Motor Carrier Act of 1980.
- Holding a series of public meetings to get input on the issue of written contracts for interstate shipments of agricultural and other exempt commodities. The purpose of the written contract is to ensure full disclosure and prompt compensation.
- Implementing a rulemaking that deals with "lumping" and completion of a series of meetings which examine how nonuniformity of State and Federal regulations affect owner-operators.

ICC believes these measures, along with the provisions of the new law, should result in a significant reduction in owner-operator problems.

We believe the actions initiated by ICC, when completed, will implement our recommendation.

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DAVID BOIES
CHIEF COUNSEL AND STAFF DIRECTOR

United States Senate

COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY
WASHINGTON, D.C. 20510

October 17, 1978

Elmer B. Staats
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

I am writing to request the further assistance of the General Accounting Office in this Subcommittee's continuing investigation of current issues involving federal regulation of the trucking industry.

Testimony in recent Subcommittee hearings has focused on the issue of "trip leasing" and its relationship to the reasonableness of rate levels in the industry. Trip leases are the arrangements under which licensed carriers contract with unlicensed truckers -- usually owner/operators -- to haul regulated freight on routes which only the licensed carrier may legally serve. In return for the effective use of the carrier's certificate, the unregulated trucker pays a fee equal to a fixed percentage of the revenue generated by the particular haul, often amounting to 25-35%.

In the exempt commodity sector of the market, loads and drivers have traditionally been brought together by agricultural brokers licensed by the I.C.C. Rates for agricultural commodities have never been regulated, and the owner/operators who haul exempt loads do not need to be licensed by the I.C.C. In many cases, owner/operators and small regulated carriers with limited grants of operating rights find it necessary to trip lease to regulated carriers in order to avoid having to return empty.

The practice of "trip leasing," however, may now extend far beyond the "empty backhaul" problem. Moreover, it may no longer be the means for regulated carriers to temporarily increase capacity to meet unexpected demand. There is substantial evidence to indicate that an increasing number of I.C.C. certificated carriers haul no freight themselves, that they do not own any equipment, nor employ the requisite number of drivers needed to haul freight tendered to them. Indeed, it appears that owner/operators may, in fact, be providing much of the service for which regulated carriers themselves are certificated to provide.

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Available evidence also suggests that trip leasing fees may be exorbitantly high. Agricultural brokers charge a fee of 5-8% for what witnesses have testified are substantially equivalent services. Trip leasing practices not only make it difficult to determine whether carriers are actually fulfilling the service obligations set forth in their I.C.C. certificates; the fact that an owner/operator may still earn sufficient profit while having to pay a 25-35% toll to a certificate holder indicates that rates may be substantially higher than are justified.

At my instruction, the Subcommittee staff conducted a preliminary survey which illustrates the pervasiveness of trip leasing practices. Using generally available information, the staff found that approximately 15% of all Class I & II carriers of general commodities (accounting for revenues in excess of one half billion dollars in 1976) and more than half of the largest household goods carriers owned no truck tractors engaged in intercity operations. The survey did not include those certificated carriers who choose to subcontract any portion of their business, or the "special commodity" divisions maintained by many of the largest I.C.C. carriers which utilize owner/operators exclusively.

The development of an entire submarket of owner/operators and small fleets subcontracted at a fee to I.C.C. certificate holders, raises important questions regarding the efficiency of our truck transportation system and the efficacy of the current scheme of federal regulation.

I am, therefore, requesting that the GAO determine the feasibility of initiating a study of the impact of leasing in the industry. Most logically, this study would emerge as an interim report of the GAO's ongoing, comprehensive study of the aggregate effects of motor freight transportation regulation. As such, the leasing study would enhance the carrier estimation procedures being developed for use in that larger study.

Specifically, the Subcommittee is interested in knowing the extent of these practices, both in the aggregate and in four segments of the industry: general freight, household goods, refrigerated solid freight, and iron and steel. We are interested in knowing the differences, if any, in services rendered by I.C.C. certificate holders and those rendered by agricultural brokers.

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We are also interested in knowing the reasonableness of the fees charged for these services, as well as any observed disparity. I would request that the information be compiled in a manner that will enable the GAO to estimate the excess cost, if any, attributable to this practice.

Thank you for your continuing cooperation in these matters.

Sincerely,



Edward M. Kennedy

DETERMINATION OF TRUCK BROKER UNIVERSE

In February 1980, we sent mailgrams to all firms that we could identify as potential truck brokers in the United States--excluding Alaska and Hawaii. The mailgram was designed to determine

- if the firm did operate as a truck broker,
- whether the firm arranged for the movement of exempt goods during 1979, and
- if we had the firm's correct name and address.

The survey universe was limited to parent operations. We did not include any branch offices because we would be obtaining duplicate financial and operational data from the parent firm when we received their questionnaire.

METHODOLOGY

Our original universe of potential truck brokers was selected from the fall 1979 editions of the Packer Red Book and the Produce Reporter Company's Blue Book. We also examined the fall 1978 edition of the National Backhaul Guide published by J. J. Keller and Associates, the U.S. Department of Agriculture's mailing list for its distribution of the Fruit and Vegetable Truck Cost Report, and the membership list of the United Fresh Fruit and Vegetable Association. The original universe consisted of all firms that were either identified as truck brokers by these publications or whose organizational name indicated that they may be truck brokers.

We sent mailgrams to 1,051 firms which we identified as potential truck brokers of exempt commodities from these sources.

After two followups to nonresponding firms, we received 907 (86.3 percent) responses, of which 182 (17.3 percent) had to be excluded because they were not truck brokers who arranged for the movement of exempt goods during 1979. Also, of the original 1,051 mailgrams, 60 (5.7 percent) were undeliverable.

Because of excluded and undeliverable mailgrams, as well as 144 (13.7 percent) nonrespondents, we adjusted our original universe downward by 386 firms, or 36.7 percent (17.3 percent were not brokers of exempt commodities during 1979; 5.7 percent were undeliverable mailgrams; and 13.7 percent were nonrespondents). As a result, from the original universe

of 1,051 firms, we identified 665 firms that responded that they were truck brokers of exempt commodities during 1979.

Adjusted Truck Broker Universe

	<u>Number of Firms</u>	<u>Percent</u>
Original universe	1,051	100.0
Less: negative responses	182	17.3
Less: undeliverable mailgram	60	5.7
Less: nonrespondents	<u>144</u>	<u>13.7</u>
Total deletions	<u>386</u>	<u>36.7</u>
Total adjusted universe of truck brokers	<u>665</u>	<u>63.3</u>

METHODOLOGY AND RESULTS OF QUESTIONNAIRESURVEY OF TRUCK BROKERS

In early 1980, we sent questionnaires to 665 truck brokers located in the contiguous United States. The questionnaire was designed to

- determine certain general financial and operating characteristics of truck brokers,
- determine the fees that truck brokers charge owner-operators when arranging for transportation of exempt and regulated commodities,
- identify the services provided to owner-operators who use truck brokers, and
- determine what portion of the truck brokers' fee covers costs incurred for services provided to owner-operators and what portion is allocated to some other account.

The survey universe was limited to the headquarters offices of truck brokers to avoid obtaining duplicate data from branch offices. We also surveyed only those truck brokers who arranged for the transportation of exempt commodities during 1979 so we would be able to compare the recent operations of truck brokers in the exempt market with the recent operations of certificated carriers in the regulated market.

METHODOLOGY

Our universe of truck brokers was determined by sending a mailgram to 1,051 firms which we identified from various sources as potential truck brokers of exempt commodities during 1979. (See Appendix II for details on universe selections.) As a result of this mailgram effort, 665 firms represented our universe and were sent questionnaires.

After two followups to nonresponding truck brokers, we received 355 responses, of which 67 (18.8 percent) had to be excluded for one of the following reasons:

- The firm was no longer a truck broker of exempt commodities.
- The firm was no longer in business.
- The firm did not use owner-operators to move exempt commodities.

--The firm was a subsidiary whose parent organization responded to our questionnaire.

As a result of excluded questionnaires, our universe was adjusted downward to 598 firms (original universe of 665 less 67 excluded questionnaires).

From the adjusted universe of 598, we received 288 usable responses, a 48.1 percent response rate.

SUMMARY OF RESPONSES
TO SELECTED QUESTIONS

The following section summarizes answers to selected questions from the questionnaire. Because some truck brokers did not answer specific questions or the question was not applicable to their particular operations, the number of responses to individual questions varies.

QUESTION 1: During 1979, approximately how many vehicles did your firm own, if any?

ANSWER: 286 truck brokers responded to this question as follows:

Type of vehicle	Do not own vehicles	Percent	Own vehicles	Percent	Average number vehicles owned
Trucks	268	94	18	6	7
Tractors	205	72	81	28	14
Trailers	192	67	94	33	19

QUESTION 3: Of the total trips your firm arranged during 1979 (including trips made by your own trucks), approximately what percent were driven by the following types of drivers?

ANSWER: 275 truck brokers responded to this question as follows:

<u>Type of driver</u>	<u>Average percentage</u>
(1) Driven by employees of your own firm who	
(a) drove your trucks	10
(b) drove their own trucks	5
(2) Driven by independent owner-operators who	
(a) worked on a relatively permanent basis	32
(b) worked on a single trip basis	23
(c) worked on some other basis	2
(3) Driven by employees of another trucking company	25
(4) Driven by employees of a shipper (private)	2
(5) Other drivers	<u>1</u>
Total	<u><u>100</u></u>

QUESTION 4: Of the total trips your firm arranged during 1979 (including trips made by your own trucks), approximately what percent were interstate trips?

ANSWER: 285 truck brokers responded to this question. Of the total respondents, 244 (86 percent) arranged for interstate trips 91 to 100 percent of the time.

QUESTION 5: Of the total trips your firm arranged during 1979 (including trips made by your own trucks), approximately what percent carried less-than-truckload (under 10,000 pounds) shipments?

ANSWER: 283 truck brokers responded to this question. Of the total respondents, 266 (94 percent) had less-than-truckload shipments between 0 and 10 percent of the time.

QUESTION 6: Does your firm own any ICC certificates?

ANSWER: 286 truck brokers responded to this question. Of the total respondents, 234 (82 percent) did not own any ICC certificates. The 52 brokers that did own certificates used them as follows:

<u>Use of own ICC certificate</u>	<u>Number of truck brokers</u>	<u>Percent</u>
Frequently	36	69
Occasionally	6	11
Seldom	5	10
Never	5	10

QUESTION 8: If your firm arranged any trips of regulated goods in 1979 (including trips made by your own trucks), approximately what percent of your total regulated trips were hauled under the following arrangements?

ANSWER: 286 truck brokers responded to this question. Of the total respondents, 100 (35 percent) arranged for trips of regulated goods as follows:

<u>Method used to move regulated goods</u>	<u>Percent of respondents</u>
Using your own ICC certificate	29
Using someone else's ICC certificate	43
Using an exemption granted to an agricultural cooperative	16
Using some other arrangement	<u>12</u>
	<u>100</u>

QUESTION 10: During 1979, what kinds of regulated and exempt commodities were hauled in the trips your firm arranged (including trips made by your own trucks)?

ANSWER: 100 truck brokers responded to the regulated portion of this question as follows:

<u>(1). Regulated commodities</u>	<u>Percent of total regulated tons</u>
General freight	40.9
Heavy machinery	1.0
Liquid petroleum	0.2
Refrigerated products	37.5
Motor vehicles	0.1
Building materials	6.8
Other regulated goods	<u>13.5</u>
	<u>100.0</u>

ANSWER: 284 truck brokers responded to the exempt portion of this question as follows:

<u>(2) Exempt commodities</u>	<u>Percent of total exempt tons</u>
Fresh fruits and vegetables	67.7
Nuts	1.4
Fresh and frozen poultry	9.0
Livestock	0.1
Fresh eggs	1.2
Grain	4.6
Fresh milk and cream	0.4
Fresh and frozen fish	2.8
Horticultural commodities	6.2
Other exempt goods	<u>6.6</u>
	<u>100.0</u>

QUESTION 11: For the trips your firm arranged during 1979, (including trips made by your own trucks) what was: (1) the average length of these trips, (2) the average weight hauled, and (3) the average gross revenue received per trip?

ANSWER: 278 truck brokers responded to the first and third parts of the question. 282 truck brokers responded to the third part as follows:

Average length of trip: 1,423 miles
 Average weight hauled: 40,566 pounds
 Average gross revenue: \$1,395

QUESTION 12: During 1979, approximately how many full and part-time employees worked in each of the following categories?

ANSWER: 278 truck brokers responded to this question as follows:

<u>Type of employee</u>	<u>Full-time employees</u>	<u>Part-time employees</u>
Truck brokers (dispatchers)	2.5	0.3
Truck drivers	8.6	0.6
Others	3.0	0.3

QUESTION 14: Approximately what was your firm's total operating revenue for 1979 (including payments to drivers)?

ANSWER: 287 truck brokers responded to this question as follows:

<u>Total operating revenue</u>	<u>Number of truck brokers</u>
Less than \$500,000	57
\$500,000 to \$2,999,999	166
\$3,000,000 and over	64

QUESTION 25: How many years has this firm been in business?

ANSWER: 284 truck brokers responded that they had been in business an average of 11.8 years. These firms were in business as follows:

<u>Range of years</u>	<u>Number of truck brokers</u>
1 to 5	108
6 to 10	51
11 to 20	66
21 to 30	46
31 to 40	13

U.S. GENERAL ACCOUNTING OFFICE
TRUCK BROKER SURVEY



INSTRUCTIONS

This questionnaire is designed to be answered by someone knowledgeable of your firm's recent financial experience. However, if your firm employs many truck brokers, it should be completed by a company executive. Please keep in mind when filling out this questionnaire that we are interested in all trips that your firm brokered or arranged during 1979, and trips made by your own employees and trips made in your own trucks. We need this data to obtain a profile on the operating characteristics of truck brokers. Answers should apply to all branches as well as headquarter activities and will be kept confidential.

In answering the questionnaire, please ignore the numbers in parentheses; they are for our keypunchers. We realize that it may be difficult for you to provide specific answers to some of the questions; however, your best estimates will be very valuable to our study. If you have any questions, call collect either Jim Yeager or Barry Florence at (202) 275-5885.

Please enclose your completed questionnaire in the self-addressed envelope and return it within 10 days. If the envelope is misplaced, mail your completed questionnaire to:

U.S. General Accounting Office
ATTN: Mr. Jim Yeager
441 G St., N.W., Rm. 6126
Washington, DC 20548

We are most grateful for your cooperation, for we cannot make a meaningful report to the Congress without your participation and assistance.

Check here if you would like to receive a copy of the results of our survey.

I. RESPONDENT INFORMATION:

Name _____
Title _____
Telephone Number () _____
(Area Code) Number

II. DESCRIPTION OF FIRM'S OPERATIONS:

1. During 1979, approximately how many vehicles did your firm own, if any? (Please fill in the blanks.)
For example, if your firm owned 250 trucks during 1979, enter 250
If none, enter / / / /

Numbers

Trucks	<u> / / / / / </u>	(7-10)
Tractors	<u> / / / / / </u>	(11-14)
Trailers	<u> / / / / / </u>	(15-18)

2. For the trips that your firm arranged during 1979 (including trips made by your own trucks), approximately what were the total number of trips, miles, and tons? (Please fill in the blanks.)

Total trips	<u> / / / / / / / / / / / / / / / / </u>	(19-27)
Total miles	<u> / / / / / / / / / / / / / / / / </u>	(28-36)
Total tons	<u> / / / / / / / / / / / / / / / / </u>	(37-45)

3. Of the total trips given in question 2, approximately what percent were driven by the following types of drivers? (Please fill in the blanks.) NOTE: ENTRIES SHOULD TOTAL 100% OF YOUR TOTAL TRIPS.

- (1) Driven by employees of your own firm who
- (a) drove your trucks / / / / % (46-48)
 - (b) drove their own trucks / / / / % (49-51)
- (2) Driven by independent owner operators who
- (a) worked on a relatively permanent basis / / / / % (52-54)
 - (b) worked on a single trip basis / / / / % (55-57)
 - (c) worked on some other basis / / / / % (58-60)
- (3) Driven by employees of another trucking company / / / / % (61-63)
- (4) Driven by employees of a shipper (private) / / / / % (64-66)
- (5) Other drivers / / / / % (67-69)

100% of total trips

4. Of the total trips given in question 2, approximately what percent were for interstate trips? *(Please fill in the blanks.)*

____/____/____/____/ % (70-72)

5. Of the total trips given in question 2, approximately what percent carried less than truckload (under 10,000 lbs.) shipments? *(Please fill in the blanks.)*

____/____/____/____/ % (7-9)

6. Does your firm own any ICC certificates? *(Check one.)* (10)

Yes - If "Yes," how often does your firm use these certificates? *(Check one.)*

Frequently

Occasionally

Seldom

Never

No

7. Of the total trips, miles, and tons given in question 2, approximately what percent of these were used in hauling regulated and exempt goods? If your firm did not arrange any trips of regulated goods in 1979, please fill in 1/0/0 % next to the "Exempt goods" lines and answer the rest of the questions with respect to exempt goods only. *(Please fill in the blanks.)*

Percent of trips

Regulated goods ____/____/____/____/ % (11-13)

Exempt goods ____/____/____/____/ % (14-16)

100% of Total Trips

Percent of miles

Regulated goods ____/____/____/____/ % (17-19)

Exempt goods ____/____/____/____/ % (20-22)

100% of Total Miles

Percent of tons

Regulated goods ____/____/____/____/ % (23-25)

Exempt goods ____/____/____/____/ % (26-28)

100% of Total Tons

8. If your firm arranged any trips of regulated goods in 1979 (including trips made by your own trucks), approximately what percent of your total regulated trips were hauled under the following arrangements? *(Please fill in the blanks. If your firm did not arrange for any trips of regulated goods, skip this question.)*

Percent of Regulated Trips

- using your own ICC certificate ____/____/____/____/ % (29-31)

- using someone else's ICC certificate ____/____/____/____/ % (32-34)

- using an exemption granted to an agricultural cooperative ____/____/____/____/ % (35-37)

- using some other arrangement *(Please explain.)* ____/____/____/____/ % (38-40)

_____ ____/____/____/____/ % (41-43)

_____ ____/____/____/____/ % (44-46)

_____ ____/____/____/____/ % (47-49)

100% of Regulated Trips

9. Approximately what percent of your total exempt trips were hauled by each of the following types of carriers? *(Please fill in the blanks.)*

Percent of Exempt Trips

(1) ICC certificated carriers ____/____/____/____/ % (53-55)

(2) Non ICC certificated carriers

(A) Private ____/____/____/____/ % (56-58)

(B) Exempt Goods Only ____/____/____/____/ % (59-61)

(C) Other ____/____/____/____/ % (62-64)

100% of Exempt Trips

10. During 1979, what kinds of regulated and exempt commodities were hauled in the trips your firm arranged (including trips made by your own trucks)? (Please fill in (1) the percent of total regulated tons—if any—for each regulated commodity group, and (2) the percent of total exempt tons for each exempt commodity group.)

(1) Regulated Commodities	Percent of Total Regulated Tons
General freight	_____/_____/_____/_____/_____/_____ % (7-9)
Heavy machinery	_____/_____/_____/_____/_____/_____ % (10-12)
Liquid petroleum	_____/_____/_____/_____/_____/_____ % (13-15)
Refrigerated products	_____/_____/_____/_____/_____/_____ % (16-18)
Motor vehicles	_____/_____/_____/_____/_____/_____ % (19-21)
Building materials	_____/_____/_____/_____/_____/_____ % (22-24)
Other regulated commodities (Please specify.)	
_____	_____/_____/_____/_____/_____/_____ % (25-27)
_____	_____/_____/_____/_____/_____/_____ % (28-30)
_____	_____/_____/_____/_____/_____/_____ % (31-33)
100% of Regulated Tons	

(2) Exempt Commodities	Percent of Total Exempt Tons
Fresh fruits and vegetables	_____/_____/_____/_____/_____/_____ % (34-36)
Nuts	_____/_____/_____/_____/_____/_____ % (37-39)
Fresh and frozen poultry	_____/_____/_____/_____/_____/_____ % (40-42)
Livestock	_____/_____/_____/_____/_____/_____ % (43-45)
Fresh eggs	_____/_____/_____/_____/_____/_____ % (46-48)
Grain	_____/_____/_____/_____/_____/_____ % (49-51)
Fresh milk and cream	_____/_____/_____/_____/_____/_____ % (52-54)
Fresh and frozen fish	_____/_____/_____/_____/_____/_____ % (55-57)
Horticultural commodities	_____/_____/_____/_____/_____/_____ % (58-60)
Other exempt commodities (Please specify.)	
_____	_____/_____/_____/_____/_____/_____ % (61-63)
_____	_____/_____/_____/_____/_____/_____ % (64-66)
_____	_____/_____/_____/_____/_____/_____ % (67-69)
100% of Exempt Tons	

11. For the trips your firm arranged during 1979, (including trips made by your own trucks) what was: (1) the average length of these trips, (2) the average weight hauled, and (3) the average gross revenue received per trip? (Please fill in the blanks.)

- (1) Average length _____/_____ Miles (7-10)
of trip
- (2) Average weight _____/_____ Pounds (11-15)
hauled
- (3) Average gross _____/_____ Dollars (16-20)
revenue

12. During 1979, approximately how many full and part-time employees worked in each of the following categories? (Please fill in the blanks.)

	Full-time Employees	Part-time Employees
(1) Truck Brokers (Dispatchers)	_____/_____/_____/_____/_____/_____ (21-24)	_____/_____/_____/_____/_____/_____ (25-28)
(2) Truck Drivers	_____/_____/_____/_____/_____/_____ (29-32)	_____/_____/_____/_____/_____/_____ (33-36)
(3) Others	_____/_____/_____/_____/_____/_____ (37-40)	_____/_____/_____/_____/_____/_____ (41-44)

13. During 1979, approximately how many shippers and owner operators did you deal with? (Please fill in the blanks.)

	Number
Shippers of exempt products	_____/_____/_____/_____/_____/_____ (45-48)
Shippers of regulated products	_____/_____/_____/_____/_____/_____ (49-52)
Owner operators	_____/_____/_____/_____/_____/_____ (53-56)

III. FINANCIAL INFORMATION

14. Approximately what was your firm's total operating revenue for 1979 (including payments to drivers)? (Please fill in the blanks.)

_____/_____/_____/_____/_____/_____/_____/_____ Dollars (7-15)

15. Approximately what percent of this revenue was obtained from trips made by your own trucks? (Please fill in the blanks.)

_____/_____/_____/_____ % (16-18)

16. Approximately what percent of this revenue was obtained from hauling regulated and exempt commodities? *(Please fill in the blanks.)*

Percent of Revenue

Regulated commodities % (19-21)

Exempt commodities % (22-24)

17. For 1979, approximately what were your total operating expenses? *(Please fill in the blanks.)*

 Dollars (25-33)

18. Of these operating expenses, about what percent were incurred when arranging for shipment of regulated and exempt commodities? *(Please fill in the blanks.)*

Percent of Expenses

Regulated commodities % (34-36)

Exempt commodities % (37-39)

19. For 1979, approximately what percent of your total operating expenses fell into each of the following categories? We realize that it may be difficult to breakdown your expenses by these activities; however, your best estimate will be very valuable to our study. *(Please fill in the blanks.)*

Percent of Total Operating Expenses

Linehaul (including payments to drivers) % (40-41)

Pickup and delivery % (42-43)

Billing and collecting % (44-45)

Platform % (46-47)

Terminal % (48-49)

Maintenance % (50-51)

Traffic and sales % (52-53)

Insurance and safety % (54-55)

General and administrative % (56-57)

100% of Total Operating Expenses

20. What is your usual brokerage fee (as a percent of revenue or in cents per mile) for arranging trips of regulated and exempt commodities? *(Please fill in the blanks.)* (7)

	<u>Regulated</u>	<u>Exempt</u>
Brokerage fee without an advance and without a trailer	<u> </u> (8-10)	<u> </u> (11-13)
Brokerage fee with an advance to driver	<u> </u> (14-16)	<u> </u> (17-19)
Brokerage fee with a broker/ shipper supplied trailer	<u> </u> (20-22)	<u> </u> (23-25)
Brokerage fee with an advance and a trailer	<u> </u> (26-28)	<u> </u> (29-31)

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IV. SERVICES PROVIDED BY FIRM

21. During 1979, how often did you provide any or all of the following services to independent owner operators when you arranged for regulated and exempt loads? (For each service check one box for both regulated and exempt loads, if appropriate.)

Services	Regulated Loads				Exempt Loads				
	Always	Most of the time	Sometimes	Never	Always	Most of the time	Sometimes	Never	
	1.	2.	3.	4.	1.	2.	3.	4.	
Advances									(32-33)
Assistance in obtaining backhauls									(34-35)
Safety inspections									(36-37)
Cargo insurance									(38-39)
Personnel liability insurance									(40-41)
Property damage insurance									(42-43)
Collision insurance									(44-45)
Workmen's Compensation									(46-47)
Bookkeeping (billing, collecting, etc.)									(48-49)
Negotiation of claims									(50-51)
Federal and state reporting requirements									(52-53)
Prepare, publish, and file rates or tariffs									(54-55)
Communication network (dispatching, telephones, teletypes, etc.)									(56-57)
Solicitation of traffic (sales)									(58-59)
State operating requirements (permits, fees, licenses, etc.)									(60-61)
Other services (Please specify.)									(62-63)
									(64-65)
									(66-67)

22. For an average trip made during 1979, approximately what percent of the fee that you charge independent owner operators is either spent on providing the following services or allocated to other accounts when you arranged regulated and exempt loads. We realize that it may be difficult for you to breakdown your fees by these services and other accounts; however, your best estimate will be very valuable to our study. (Please fill in the blanks in each column, if appropriate. Note that the sum of each column should total 100% of the fee charged.)

Services	Percent of Fee		
	Regulated Loads	Exempt Loads	
Advances	_____%	_____%	(7-10)
Assistance in obtaining backhauls	_____%	_____%	(11-14)
Safety inspections	_____%	_____%	(15-18)
Cargo insurance	_____%	_____%	(19-22)
Personnel liability insurance	_____%	_____%	(23-26)
Property damage insurance	_____%	_____%	(27-30)
Collision insurance	_____%	_____%	(31-34)
Workmen's Compensation	_____%	_____%	(35-38)
Bookkeeping (billing, collecting, etc.)	_____%	_____%	(39-42)
Negotiation of claims	_____%	_____%	(43-46)
Federal and state reporting requirements	_____%	_____%	(47-50)
Prepare, publish, and file rates or tariffs	_____%	_____%	(51-54)
Communication network (dispatching, telephones, teletypes, etc.)	_____%	_____%	(55-58)
Solicitation of traffic (sales)	_____%	_____%	(59-62)
State operating requirements (permits, fees, licenses, etc.)	_____%	_____%	(63-66)
Other services (as specified in question 21)			
_____	_____%	_____%	(7-10)
_____	_____%	_____%	(11-14)
_____	_____%	_____%	(15-18)
<u>Other Accounts</u>			
Operating rights (ICC certificates)	_____%	_____%	(19-22)
General overhead (including buildings, offices, terminals, etc.)	_____%	_____%	(23-26)
Profit	_____%	_____%	(27-30)
All other expenses (Please specify)			
_____	_____%	_____%	(31-34)
_____	_____%	_____%	(35-38)
	100% of fee	100% of fee	

23. What changes, if any, do you think should be made in Federal regulation of surface freight transportation? *(Please check one box.)* We are also interested in any comments you have on this topic. (39)

- Total deregulation (except for safety regulations). This includes the freedom to enter any market and the freedom to set any rate.
- Partial deregulation-truckload traffic. This includes the freedom to enter any market and the freedom to set any rate for truckload shipments only.
- Partial deregulation-backhaul traffic. This includes the freedom to carry any commodities and to set any rate for backhauls only.
- No changes in current regulations.
- Increased regulation. This includes regulation of all commodities that are currently exempt, and the licensing or bonding of truck brokers of exempt goods.
- Other changes. *(Please specify.)*

Comments. (40-42)

24. Please comment on whether or not you feel that the leasing fees certificated motor carriers charge owner operators are justified. (43-45)

25. How many years has this firm been in business? *(Please fill in the blanks.)*

 11 Years (46 - 47)

Thank you very much for your cooperation.

TABULATION ANALYSIS

Tables 1 through 8 show the relationship among average operating revenue, expenses, and income by five categories of owner-operator use for carriers of eight different commodities. In a few cases the differences between total operating revenue and total operating expenses do not equal operating income. This difference occurred because of rounding and the way certain missing values were handled. The data used in this analysis was obtained from the 1978 motor carrier annual reports of 2,090 a/ Class I and Class II certificated carriers as published on computer magnetic tape by the American Trucking Associations, Inc. The number of carriers analyzed is somewhat less than the total universe because not all carriers provided data on one or more of the variables used in the tabulation.

a/See pages 12 and 13.

Table 1

Average operating revenue, expenses, and income in cents
per mile for 840 carriers of general freight

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	2.66	2.08	1.70	1.63	1.58
Linehaul	0.70	0.80	0.71	0.88	1.14
Pickup & delivery	0.98	0.59	0.47	0.44	0.14
Bill & collect	0.09	0.06	0.03	0.02	0.02
Platform	0.25	0.17	0.08	0.05	0.03
Terminal	0.15	0.13	0.07	0.05	0.04
Traffic & sales	0.08	0.06	0.05	0.04	0.04
Maintenance	0.05	0.03	0.03	0.01	0.01
Insurance & safety	0.03	0.02	0.01	0.01	0.01
General & administrative	0.22	0.13	0.13	0.08	0.12
Total operating expenses	2.55	2.00	1.58	1.59	1.54
Operating income	0.11	0.07	0.11	0.05	0.04
Mean haul - miles	193	320	306	414	411
Mean load - tons	9.2	12.0	11.6	11.5	13.7
Number of carriers	556	122	60	32	70

Table 2

Average operating revenue, expenses, and income in cents per mile for 61 carriers of heavy machinery

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	2.05	2.33	1.74	1.52	1.92
Linehaul	1.43	1.63	1.01	1.18	1.61
Pickup & delivery	0.09	0.00	0.45	0.01	0.00
Bill & collect	0.01	0.02	0.00	0.01	0.01
Platform	0.00	0.00	0.00	0.00	0.00
Terminal	0.04	0.06	0.03	0.04	0.04
Traffic & sales	0.06	0.14	0.02	0.05	0.05
Maintenance	0.08	0.21	0.03	0.01	0.01
Insurance & safety	0.01	0.01	0.01	0.01	0.02
General & administrative	0.21	0.22	0.15	0.12	0.16
Total operating expenses	1.93	2.29	1.71	1.43	1.92
Operating income	0.12	0.04	0.03	0.09	0.01
Mean haul - miles	279	64	440	290	631
Mean load - tons	11.2	22.2	10.5	12.1	13.7
Number of carriers	25	6	6	8	16

Table 3

Average operating revenue, expenses, and income in cents
per mile for 164 carriers of petroleum products

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	1.29	1.10	1.03	1.05	1.21
Linehaul	1.04	0.86	0.83	0.89	1.01
Pickup & delivery	0.01	0.05	0.04	0.01	0.00
Bill & collect	0.01	0.00	0.00	0.01	0.01
Platform	0.00	0.00	0.00	0.00	0.00
Terminal	0.02	0.02	0.02	0.00	0.02
Traffic & sales	0.01	0.01	0.01	0.01	0.01
Maintenance	0.04	0.03	0.03	0.05	0.03
Insurance & safety	0.01	0.01	0.01	0.01	0.01
General & administrative	0.08	0.07	0.05	0.02	0.08
Total operating expenses	1.22	1.05	0.99	1.00	1.17
Operating income	0.07	0.05	0.04	0.06	0.04
Mean haul - miles	126	121	156	183	116
Mean load - tons	15.1	13.4	15.5	15.5	15.2
Number of carriers	83	35	29	6	11

Table 4Average operating revenue, expenses, and income in cents
per mile for 136 carriers of refrigerated products

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	1.20	1.11	0.89	1.04	0.91
Linehaul	0.81	0.85	0.69	0.84	0.78
Pickup & delivery	0.11	0.10	0.08	0.01	0.01
Bill & collect	0.01	0.00	0.01	0.00	0.00
Platform	0.04	0.01	0.01	0.01	0.00
Terminal	0.04	0.02	0.01	0.02	0.02
Traffic & sales	0.02	0.01	0.01	0.02	0.01
Maintenance	0.03	0.01	0.02	0.01	0.01
Insurance & safety	0.01	0.01	0.01	0.01	0.01
General & administrative	0.08	0.06	0.05	0.07	0.05
Total operating expenses	1.15	1.09	0.87	1.00	0.88
Operating income	0.05	0.02	0.02	0.05	0.03
Mean haul - miles	503	870	883	770	979
Mean load - tons	11.0	16.1	15.5	14.8	15.9
Number of carriers	37	17	20	22	40

Table 5Average operating revenue, expenses, and income in cents per mile for 111 carriers of agricultural commodities

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	0.88	0.88	1.12	1.49	1.07
Linehaul	0.72	0.69	0.95	1.33	0.95
Pickup & delivery	0.00	0.04	0.03	0.04	0.00
Bill & collect	0.00	0.01	0.01	0.01	0.00
Platform	0.00	0.01	0.00	0.01	0.01
Terminal	0.00	0.01	0.00	0.01	0.00
Traffic & sales	0.01	0.01	0.01	0.02	0.01
Maintenance	0.05	0.02	0.02	0.03	0.01
Insurance & safety	0.00	0.01	0.01	0.01	0.01
General & administrative	0.05	0.05	0.08	0.13	0.09
Total operating expenses	0.83	0.84	1.10	1.57	1.07
Operating income or loss	0.05	0.04	0.02	-.08	0.00
Mean haul - miles	574	558	400	286	980
Mean load - tons	15.1	13.4	14.3	14.8	15.8
Number of carriers	51	23	16	15	6

Table 6

Average operating revenue, expenses, and income in cents
per mile for 41 carriers of motor vehicles

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	1.34	1.61		2.46	1.24
Linehaul	1.04	1.15		2.30	0.95
Pickup & delivery	0.00	0.00		0.00	0.00
Bill & collect	0.00	0.00		0.00	0.00
Platform	0.01	0.00		0.00	0.00
Terminal	0.10	0.21		0.02	0.03
Traffic & sales	0.01	0.00		0.01	0.00
Maintenance	0.03	0.04		0.01	0.00
Insurance & safety	0.01	0.01		0.00	0.00
General & administrative	0.09	0.09		0.06	0.20
Total operating expenses	1.28	1.52		2.41	1.18
Operating income	0.06	0.09		0.05	0.06
Mean haul - miles	259	184		736	125
Mean load - tons	7.5	6.7		15.7	8.0
Number of carriers	31	6	0	2	2

Table 7Average operating revenue, expenses, and income in cents
per mile for 130 carriers of building materials

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	1.13	1.32	1.05	1.08	0.89
Linehaul	0.89	1.05	0.88	0.88	0.75
Pickup & delivery	0.04	0.03	0.00	0.03	0.00
Bill & collect	0.00	0.01	0.00	0.00	0.00
Platform	0.00	0.00	0.00	0.00	0.00
Terminal	0.01	0.01	0.02	0.02	0.02
Traffic & sales	0.01	0.02	0.01	0.01	0.02
Maintenance	0.05	0.03	0.03	0.01	0.01
Insurance & safety	0.01	0.00	0.01	0.00	0.01
General & administrative	0.08	0.10	0.06	0.09	0.06
Total operating expenses	1.09	1.26	1.01	1.05	0.87
Operating income	0.04	0.06	0.04	0.04	0.02
Mean haul - miles	225	272	248	315	570
Mean load - tons	14.8	14.3	14.8	16.6	16.5
Number of carriers	39	24	30	13	24

Table 8

Average operating revenue, expenses, and income in cents
per mile for 607 carriers of "other commodities"

<u>Item</u>	<u>Percentage of owner-operator miles</u>				
	<u>0-5%</u>	<u>5-30%</u>	<u>30-60%</u>	<u>60-90%</u>	<u>90-100%</u>
Operating revenue	1.50	1.18	1.18	1.12	1.15
Linehaul	0.98	0.90	0.91	0.89	0.90
Pickup & delivery	0.13	0.05	0.02	0.05	0.07
Bill & collect	0.01	0.01	0.01	0.01	0.01
Platform	0.02	0.01	0.01	0.00	0.00
Terminal	0.06	0.02	0.03	0.02	0.02
Traffic & sales	0.03	0.01	0.01	0.02	0.02
Maintenance	0.05	0.04	0.04	0.02	0.01
Insurance & safety	0.01	0.01	0.01	0.01	0.01
General & administrative	0.14	0.08	0.08	0.08	0.08
Total operating expenses	1.43	1.13	1.12	1.09	1.10
Operating income	0.06	0.05	0.06	0.04	0.05
Mean haul - miles	297	330	306	425	589
Mean load - tons	10.8	13.1	13.6	13.6	14.3
Number of carriers	273	89	74	70	101

REGRESSION ANALYSIS

This appendix provides the technical details of the regression analysis discussed in chapter 2 of this report. Tables 1-4 show the regression coefficients for all variables in the analysis. These numbers show the magnitude and direction of the relationship between an independent variable such as region, haul, or load and a dependent variable--the measure of profitability--such as rate of return on equity.

A positive sign with the coefficient means the variables move in the same direction; that is, the dependent variable increases with an increase in the independent variable or the dependent variable decreases with a decrease in the independent variable. A negative sign means the variables move in opposite directions. The magnitude of the coefficient is an indicator of the degree of the relationship between any given independent variable and the dependent variable. Since the independent variables used in our regression are in different units--miles and tons--the coefficients are not comparable among the independent variables.

The numbers in parenthesis are "T" values. These are indicators of the statistical significance of the coefficients being different from zero. The larger the absolute number, the more confident we are in the significance of the coefficients.

Authorities disagree on whether tests of significance should be used in analyses such as these. In one sense, our analyses were based on universal data, not a sample of data, and the statistical test for significance would not be appropriate to use because all the coefficients should be considered significant. On the other hand, the data can be considered as a 1-year sample of many years and under this assumption the statistical tests for significance would be appropriate.

The numbers below the line on the tables (the values of R^2 and F) are other indicators of how accurately the regression equation, as a whole, expresses the relationship among the variables. The "R" expresses the predictive power of the equation by identifying the percentage of the variation in a dependent variable that is explained by the independent variables. The "F" value indicates the statistical significance of the relationship expressed by the equation. As a general rule, the larger these values are, the more reliable the regression equation is.

Many regression equations express the relationship among variables poorly. This usually indicates that other important variables should have been included in the equation or that technical problems exist with the analysis.

The data used in this analysis was obtained from the 1978 motor carrier annual reports of 1,588 Class I and Class II certificated carriers as published on computer magnetic tape by the American Trucking Associations, Inc. There were fewer carriers used in the regression analysis than in the tabulation analysis (see app. IV) because not all carriers provided data on one or more of the variables used in the analysis.

Table 1

Independent variable	Commodity group 1 (general freight)			Commodity group 3 (heavy freight)		
	Rate of return on revenue	Rate of return on equity	Rate of return on capital	Rate of return on revenue	Rate of return on equity	Rate of return on capital
Constant	0.03992	0.31804 ^{a/} (1.78)	0.27448 (0.68)	+0.04005	-0.29533 (-0.63)	0.03180 (0.24)
Region 1	-0.01614 (-1.53)	-0.06794 (-0.30)	-1.08512 ^{a/} (-2.14)	-0.02315 (-0.42)	-0.10807 (-0.17)	-0.01825 (-0.10)
Region 2	-0.00293 (-0.34)	-0.27434 (-1.52)	-0.06124 (-0.15)	-0.00233 (-0.05)	-0.49765 (-0.96)	0.08538 (0.59)
Region 3	-0.00945 (-1.13)	-0.17169 (-0.97)	-0.24559 (-0.61)	-0.02040 (-0.52)	-0.23106 (-0.49)	-0.01785 (-0.14)
Region 4	+0.02796 ^{a/} (+3.28)	0.05483 (0.30)	0.10311 (0.25)	+0.00554 (0.12)	0.04081 (0.07)	0.02589 (0.16)
Region 5	+0.00837 (+0.73)	0.20442 (0.84)	0.15477 (0.28)	+0.00179 (+0.04)	-0.38962 (-0.65)	0.00921 (0.06)
Region 6	-0.00216 (-0.21)	0.05533 (0.26)	0.32007 (0.66)	+0.01576 (+0.28)	-0.40197 (-0.59)	0.00665 (0.03)
Region 7	+0.01471 (+1.19)	0.29795 (1.14)	0.42497 (0.71)	+0.03901 (+1.00)	0.22566 (0.48)	0.15609 (1.19)
Region 8	+0.01195 (+0.91)	-0.12619 (-0.45)	0.11149 (0.18)	+0.00446 (+0.09)	0.14808 (0.25)	0.22532 (1.39)
Haul (miles)	-2.04E-05 ^{a/} (-1.72)	8.7E-05 (0.35)	1.6E-05 (0.03)	-8.53E-07 (-0.02)	0.00020 (0.36)	0.00012 (0.79)
Percent of owner-operator miles	-0.00612 (-0.73)	-0.11881 (-0.67)	0.24470 (0.61)	-0.03533 (-1.25)	0.32985 (0.98)	-0.01566 (-0.17)
Load (tons)	+0.00016 (+0.31)	-0.00478 (-0.44)	-0.01983 (-0.79)	+0.00111 (+0.48)	0.02682 (0.97)	0.00284 (0.37)
Revenue (dollars)	+8.79E-11 ^{a/} (+2.32)	1.08E-10 (0.13)	1.3E-09 (+0.71)	+1.35E-09 (+1.35)	9.23E-09 (0.77)	2.86E-09 (0.86)
R ²	0.0640	0.0187	0.0169	0.2626	0.2933	0.3151
F	3.97	1.10	1.00	0.71	0.83	0.92
Number of carriers	709	709	709	37	37	37

^{a/}The coefficient is significantly different from zero at a 10 percent level of significance.

Table 2

Independent variable	Commodity group 4 (petroleum products)			Commodity group 5 (refrigerated products)		
	Rate of return on revenue	Rate of return on equity	Rate of return on capital	Rate of return on revenue	Rate of return on equity	Rate of return on capital
Constant	-0.00215	0.25772 (0.73)	-0.55345 (-0.70)	-0.01362	0.22140 (0.65)	-1.27823 (-0.65)
Region 1	+0.04914 ^{a/} (2.04)	0.16380 (0.32)	0.28108 (0.25)	+0.03528 (-1.04)	-0.0627 (-0.13)	1.15269 (0.42)
Region 2	+0.03370 ^{a/} (+2.50)	0.35352 (1.23)	0.39285 (0.62)	+0.01554 (+0.60)	-0.13046 (-0.36)	2.40033 (1.14)
Region 3	+0.01651 (+1.13)	0.20113 (0.66)	-0.88138 (-1.31)	+0.02294 (+0.94)	-0.00535 (-0.02)	0.72660 (0.37)
Region 4	+0.04435 ^{a/} (+3.23)	0.21496 (0.74)	0.11378 (0.18)	+0.02683 (+1.05)	0.14291 (0.40)	0.69220 (0.34)
Region 5	+0.02670 (+1.50)	0.19780 (0.52)	0.26480 (0.31)	+0.04841 ^{a/} (+1.78)	0.20625 (0.54)	0.50903 (0.23)
Region 6	+0.02723 (+1.48)	0.20196 (0.52)	0.09109 (0.10)	+0.05023 ^{a/} (+2.25)	0.32552 (1.05)	0.63932 (0.36)
Region 7	+0.04312 ^{a/} (+2.68)	0.07391 (0.22)	0.08707 (0.11)	+0.00922 (+0.38)	0.0771 (0.23)	-0.22898 (-0.12)
Region 8	+0.00115 (+0.07)	-0.89793 ^{a/} (-2.40)	-0.20134 (-0.24)	+0.03483 (+1.42)	0.08560 (0.25)	3.57353 (.182)
Haul (miles)	-1.17E-05 (-0.32)	0.00144 ^{a/} (1.83)	0.00193 (1.10)	+1.46E-05 (+1.15)	0.00034 ^{a/} (1.92)	0.00156 (1.53)
Percent of owner-operator miles	-0.00613 (-0.47)	0.01624 (0.06)	0.30851 (0.50)	-0.02642 ^{a/} (-2.11)	-0.01474 (-0.08)	0.89506 (0.89)
Load (tons)	+0.00123 (+1.46)	-0.02050 (-1.15)	0.01927 (0.48)	+0.00143 (+1.26)	-0.01614 (-1.02)	-0.04532 (-0.50)
Revenue (dollars)	+2.5E-10 (+1.46)	-1.18E-09 (-0.33)	-8.3E-10 (-0.10)	+1.17E-10 (0.29)	-2.41E-09 (-0.43)	-1.96E-08 (-0.61)
R ²	0.1596	0.1210	0.0685	0.2610	0.1176	0.12927
F	1.95	1.41	0.75	2.30	0.87	0.97
Number of carriers	136	136	136	91	91	91

^{a/}The coefficient is significantly different from zero at a 10 percent level of significance.

Table 3

Independent variables	Commodity group 8 (agricultural commodities)			Commodity group 9 (motor vehicles)		
	Dependent variables		Rate of return on capital	Dependent variable		Rate of return on capital
	Rate of return on revenue	Rate of return on equity	Rate of return on capital	Rate of return on revenue	Rate of return on equity	Rate of return on capital
Constant	0.07067	1.50165 ^{a/} (3.40)	0.16094 (0.74)	0.08421	-0.03553 (-0.04)	0.12453 (0.92)
Region 1	+0.04805 (+1.20)	-0.19630 (-0.39)	0.47512 ^{a/} (1.91)	-	-	-
Region 2	+0.00892 (+0.30)	-0.17650 (-0.47)	0.26118 (1.40)	-0.06083 (-1.27)	0.72328 (0.59)	-0.00275 (-0.02)
Region 3	+0.00158 (0.02)	0.91101 (1.13)	1.67554 ^{a/} (4.19)	-0.05414 (-1.44)	1.18934 (1.24)	0.18605 (1.35)
Region 4	+0.01191 (+0.46)	-0.06337 (-0.20)	0.27153 ^{a/} (1.70)	-0.04495 (-0.68)	0.38067 (0.23)	-0.04205 (-0.17)
Region 5	+0.03771 (+1.57)	0.51393 ^{a/} (1.71)	0.20740 (1.39)	-0.01956 (-0.47)	0.73158 (0.68)	0.05112 (0.33)
Region 6	+0.00873 (0.29)	-0.71739 ^{a/} (-1.91)	0.30605 ^{a/} (1.65)	+0.01940 (+0.49)	0.45838 (0.45)	0.07356 (0.50)
Region 7	-0.02024 (-0.55)	-0.09250 (-0.20)	0.07617 (0.34)	+0.05319 (+1.11)	0.95062 (0.78)	0.02727 (0.15)
Region 8	+0.04436 (+0.67)	0.43613 (0.52)	0.35728 (0.87)	-	-	-
Haul (miles)	-6.67E-07 (-0.03)	0.00039 (1.43)	-2.04E-5 (-0.15)	+0.00027 ^{a/} (+2.41)	-0.00331 (-1.15)	0.00014 (0.33)
Percent of owner-operator miles	-0.04975 ^{a/} (-1.86)	0.03862 (0.12)	-0.31193 ^{a/} (-1.89)	+0.03783 (+0.73)	1.66256 (1.26)	0.34407 ^{a/} (1.80)
Load (tons)	-0.00291 (-1.34)	-0.10278 ^{a/} (-3.79)	-0.00905 (-0.68)	-0.01176 ^{a/} (-2.20)	0.06356 (0.47)	-0.00815 (-0.42)
Revenue (dollars)	+1.74E-09 (+1.09)	1.81E-08 (0.90)	4.54E-09 (0.46)	+1.34E-10 (+0.44)	-3.79E-09 (-0.49)	-1.75E-10 (-0.16)
R ²	0.1898	0.3216	0.3604	0.383	0.114	0.273
F	1.09	2.21	2.63	1.61	0.34	0.97
Number of carriers	69	69	69	37	37	37

^{a/}The coefficient is significantly different from zero at a 10 percent level of significance.

Commodity group 11 (building material)		Commodity group 17 (other commodities)	
Independent variables	Dependent variable	Independent variables	Dependent variable
Rate of return on revenue	Rate of return on equity	Rate of return on revenue	Rate of return on equity
Constant	0.23322	0.17536	0.18336
Region 1	-0.13370	-0.01299	+0.00592
	(0.21)	(-0.06)	(+0.32)
Region 2	+0.00892	-0.02197	+0.00536
	(+0.70)	(-0.16)	(+0.42)
Region 3	+0.00211	-0.03540	+0.01140
	(+0.17)	(-0.10)	(+0.88)
Region 4	+0.02578 ^a	0.05653	+0.03690 ^a
	(+2.09)	(0.16)	(2.64)
Region 5	+0.00790	0.01497	+0.01181
	(0.40)	(0.03)	(+0.76)
Region 6	+0.02744 ^a	0.18764	+0.02613 ^a
	(+1.78)	(0.42)	(+1.78)
Region 7	+0.01885	1.94118 ^a	+0.03694 ^a
	(+0.86)	(3.04)	(+2.41)
Region 8	-0.00701	1.12372 ^a	+0.01708
	(-0.42)	(2.31)	(+0.92)
Haul (miles)	-1.75E-05	-0.00022	-1.58E-05 ^a
	(-0.93)	(-0.40)	(-1.74)
Percent of owner-operator miles	-0.02833 ^a	0.17886	-0.00151
	(-2.73)	(0.59)	(-0.19)
Load (tons)	+0.00114	0.00537	+9.42E-05
	(+1.60)	(0.26)	(+0.19)
Revenue (dollars)	+1.4E-09 ^a	1.63E-09	+3.4E-10
	(+2.81)	(0.11)	(+1.29)
R ²	0.2759	0.1951	0.0497
F	2.60	1.66	1.75
Number of carriers	95	95	414
			414
			414

^aThe coefficient is significantly different from zero at a 10 percent level of significance.

Table 4

CONSULTANTS USED DURING REVIEW

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Interstate Commerce Commission
Washington, D.C. 20423

OFFICE OF POLICY AND ANALYSIS

November 25, 1980

Mr. Henry Eschwege, Director
Community and Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We appreciate the opportunity to review the draft version of GAO's report entitled "ICC Needs to Eliminate Improper Leasing Practices by Certificated Motor Carriers." The report provides a good summary of our current knowledge about motor carrier leasing practices and problems. The survey of transportation brokers, in particular, is a useful attempt at increasing that knowledge. Its results are of interest even though it failed to conclusively answer the question of whether the higher percentage retained by certificated carriers is fully explained by the additional services they provide.

The percentage of revenue charged owner-operators by certificated carriers could be legitimately higher because of differences in services provided or extra regulatory costs, as the report suggests. A third possibility, not mentioned in the report, is that the percentage is higher simply because regulated carriers earn revenues which include excess profits. In other words, the amount of money owner-operators retain from regulated carriers may be equal to the amount retained from brokers for equal work, but it may appear as a smaller percentage of revenue because rates and revenue are inflated in the regulated sector. It cannot be assumed that because the percentage is different, the amount of money is different. It would be worthwhile to mention the possibility of excess profits, and explain why it was necessary to focus on percentages rather than actual amounts of money charged owner-operators.

GAO Comment: The purpose of our study was to determine whether excess profits were being made by certificated carriers that lease owner-operators. Since we were neither able to prove nor disprove this hypothesis, we did not feel it was necessary to point out the fact that the possibility of excess profits still exists. We discussed why it was necessary to focus on percentages on page 25.

Two comments on the regression analysis seem appropriate. First, if it is true that regulated carriers pay less money to owner-operators than do exempt brokers, and that this difference cannot be fully explained by differences in services provided, extra regulatory costs, or excess profits relative to the exempt sector, the implication is that they are able to somehow collude and exert a degree of monopsony power. That is the market power which results from the existence of only one or a few buyers. The likelihood that this could occur seems small, since a large number of regulated carriers would have to cooperate, and owner-operators have a large number of brokers to whom they could also sell their services.

GAO Comment: Our work did not show that certificated carriers pay less money to owner-operators. We found that carriers retain a higher percentage of a shipment's revenue, which may still result in the owner-operators' receiving equal or more actual dollars than they may receive from a broker. Fees charged owner-operators are discussed on pages 19-21.

Second, even if this situation was presumed to exist, it is not surprising that no positive relationship between profits and use of owner-operators was found in the regression. Purchased transportation is one input into the regulated carrier's production process, equivalent to fuel or capital, for instance. Firms will have selected the optimal amounts of inputs so as to maximize their profits. The expected contribution to profits of slightly increasing the use of owner-operators - or any other input - is zero. Therefore, it is reasonable that the coefficient on the owner-operator variable is generally insignificant.

GAO Comment: We discuss the basis for our hypothesis and its limitations on pages 11 and 12.

On two relatively minor points, some additional discussion might be helpful in the final version. First, the revenue levels that divide the motor carrier "classes", mentioned on page 1, are no longer current. A note could be added that the new levels are \$5 million and \$1 million. Second, there is no mention in the report of the fuel surcharge instituted by the ICC in 1978 and paid by carriers to owner-operators hauling regulated commodities. It currently is set at 13% of shipment revenue for TL shipments, and 2.3% of revenue for LTL shipments. It is not clear from the text whether or how the surcharge is accounted for when saying at least 25% is usually charged by regulated carriers.

GAO Comment: These suggestions were incorporated on pages 1 and 20.

While we concur in the report's recommendation that the ICC continue to monitor leasing practices, liberalized general entry criteria and the provision allowing owner-operators to haul food and other edible products subject only to a fitness test should significantly expand owner-operator opportunities and reduce leasing problems. We will closely monitor the effects of these two parts of the new law. The Commission is moving on several other fronts as well.

- Ex Parte No. MC-43 (Sub. No. 7), "Lease and Interchange of Vehicles", decided in January 1979, made major changes in the Commission's leasing regulations. These changes were designed to deal with the problems found in the 1977 and 1978 ICC studies.
- On November 3 of this year the Commission again reopened consideration of its leasing regulations in Ex Parte No. MC-43 (Sub. No. 11), "Lease and Interchange of Vehicles." This proceeding will "bring the leasing rules into conformance with recent statutory changes enacted in Section 15 of the Motor Carrier Act of 1980."
- As part of the effort to monitor all parts of the Motor Carrier Act of 1980, the Office of Policy and Analysis will be conducting a study of the status of owner-operators. This study is in the planning stage now, and will include a survey of owner-operators designed to produce statistically reliable data. Part of this effort will be a section specifically devoted to collecting data on leasing practices and problems.
- As the report mentions, the Commission is planning a series of meetings around the country to serve as owner-operator training sessions. They will cover all aspects of ICC trucking regulation, including leasing, and are designed to inform and educate owner-operators about their position in the new environment created by the Motor Carrier Act of 1980.
- A separate series of public meetings is planned to get input on the issue of written contracts for interstate shipments of agricultural and other exempt commodities. The Commission, in cooperation with the Department of Agriculture, is authorized by the Motor Carrier Act of 1980 to require written contracts for these movements, and may specify what provisions the contracts must contain. The purpose of the written contract is to ensure full disclosure and prompt compensation.

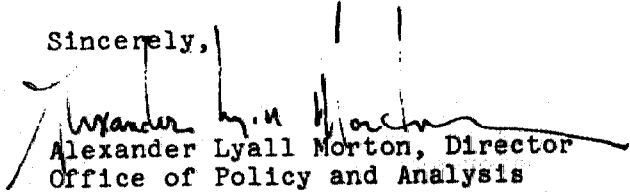
The Commission is committed to tracking other owner-operator issues along with the leasing issue. The OPA study and the training program, both mentioned above, will consider the full range of problem areas. In addition, a rulemaking is in progress that deals with "lumping", and a series of meetings has almost been completed which examined the relationship between state and federal regulations. A major purpose of these meetings was to examine how non-uniformity of regulation affects owner-operators.

These measures, along with the provisions of the new law, should result in a significant reduction in owner-operator problems.

GAO Comment: We discuss the impact of motor carrier regulatory reform legislation and ICC actions on pages 31-34.

Thank you for the opportunity to comment on this draft. If I or my staff can be of further help let me know.

Sincerely,



Alexander Lyall Morton, Director
Office of Policy and Analysis

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