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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The Household Goods Moving Industry: Changes Since Passage Of Regulatory Reform Legislation

Legislation enacted in 1980 reduced regulation of the interstate household goods moving industry. GAO reviewed the changes that have occurred among the industry's large- and medium-size carriers--commonly called van lines--since passage of the 1980 legislation and the status of the Federal Government's effort to monitor the changes. GAO found that

- van lines have begun to offer a variety of new service and price options,
- agents of van lines have obtained new authority or expanded their existing authority to move household goods in additional States, but may not be using it, and
- when compared with prior years' income, the largest carriers were doing financially better than medium-sized carriers.

The Interstate Commerce Commission has developed a monitoring program to provide information to the Congress on van lines' compliance with its new operating regulations. However, GAO is concerned that the proposed program may not be fully responsive to congressional needs for information on the impact of the legislation on the shippers and the carriers.



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GAO/RCED-83-86
JUNE 10, 1983

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

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the changes occurring in the interstate household goods moving industry since passage of the regulatory reform legislation--the Motor Carrier and Household Goods Transportation Acts of 1980. It shows a need for greater monitoring of the impact of the reform legislation on the consumers and the industry.

Our audit was performed to assist the appropriate committees of the Congress in their oversight of the legislation.

Copies of this report are being sent to the Director, Office of Management and Budget; the Chairman, Interstate Commerce Commission; the van lines included in our review and various moving industry associations; interested congressional committees; and other interested parties.

A handwritten signature in black ink, reading "Charles A. Bowser". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE HOUSEHOLD GOODS MOVING
INDUSTRY: CHANGES SINCE
PASSAGE OF REGULATORY REFORM
LEGISLATION

D I G E S T

The Motor Carrier Act and the Household Goods Transportation Act, passed in 1980, were intended to reduce regulation and stimulate competition within the household goods moving industry. The former act provided for increased competition by reducing restrictions on entry into the industry and allowing increased flexibility in setting rates. The latter encouraged a variety of price and service options for shippers and a reduction in the industry's paperwork burden while still protecting consumers. The Interstate Commerce Commission (ICC), which is responsible for regulating the industry, retained responsibility to (1) establish regulations, (2) grant operating authority, (3) review requests for rate changes, and (4) oversee the financial condition of carriers.

GAO made its review to assist the legislative committees in their annual oversight hearing on the acts. GAO's report provides (1) an indication of the changes that have occurred among the large- and medium-sized carriers in the industry since the acts were passed and (2) the status of ICC's activities in monitoring the acts. GAO discussions of the changes provide information on major segments of the industry's reaction to the new legislation. (See pp. 1 to 7.)

The household goods moving industry is made up of van lines (or carriers), their agents, and owner-operators. Under authority granted by ICC, van lines provide long-distance moving through local agents whose services include marketing, price estimating, and packing. In addition, some agents act as carriers (carrier-agents) and handle household goods shipments under their own authority from ICC. Owner-operators have their own trucks and lease themselves and their trucks to the van lines. (See pp. 2 and 3.)

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Since GAO's review was limited primarily to the five largest and two medium-size van lines and a small number of their agents, the analysis may not be representative of the industry as a whole. However, these seven van lines represent about 60 percent of the economic activity of the 163 household goods carriers with annual operating revenues of \$1 million or more. GAO attempted to develop information on carriers with annual operating revenues of less than \$1 million but could not. According to an ICC official, these small carriers represent an insignificant portion of the industry's economic activity. (See pp. 2 to 7.)

PRICE AND SERVICE OPTIONS FOR SHIPPERS

Under the Motor Carrier Act, the van lines have begun to offer a variety of new price discounts to specific types of shippers, such as corporations, based on the volume of business or negotiated contracts. However, some household goods carriers and industry associations have questioned the legality of these discount programs because they do not permit individual shippers to qualify and may result in unfair or destructive competitive practices. This issue is discussed in appendix II. (See pp. 67 to 71.) Van lines are also offering several new service options to shippers, such as guaranteed on-time pickup and delivery, with payments to shippers for delays, full value protection against lost or damaged goods, and dispute settlement programs for handling shippers' claims. (See pp. 30 to 36.)

The Household Goods Transportation Act allows shippers to be given a definite price (or binding estimate) before household goods are transported rather than requiring that final charges be based on the shipment's actual weight. By using binding estimates, carriers now have the ability to vary their charges based on existing competition, whereas previously charges had to be based on actual weight. An ICC staff study, issued in September 1982, observed that should binding estimates become the accepted rule, then the potential for discrimination between shippers will be present. The study did not find any cases of discrimination to date. However, it appears that few shippers moved under binding estimates in 1981 in part because all but one van line GAO visited did not encourage their agents to provide them. (See pp. 23 to 28.)

INDICATIONS OF CARRIERS' FINANCIAL CONDITIONS

Indications are that large household goods carriers have done financially better than medium-size carriers which have experienced declining earnings. The 15 largest van lines, as a group, have had net income increases of 29 and 26.3 percent in 1980 and 1981, respectively. In contrast, medium-size household goods carriers, as a group, had a 3.2-percent increase in net income for 1980 and a 22-percent decrease in net income for 1981. However, the 15 largest experienced decreases in net income during the first 6 months of 1982. Data for medium-size carriers for the first 6 months of 1982 is not available.

GAO's analysis of the financial and operating results of the 96 largest motor carriers of property--household goods carriers are only one type of such carriers--showed that the seven van lines in this group were doing significantly better financially than the other 89 nonhousehold goods motor carriers of property. GAO did not determine to what extent the changes in the financial condition were due to the reform legislation or other factors such as the economy. (See pp. 52 to 63.)

AGENTS NOT USING NEW OR EXPANDED OPERATING AUTHORITY

GAO was able to visit only 34 agents. Of the 34, 10 had received interstate authority to transport household goods for the first time or expanded their existing authority into additional States under the reform legislation which reduced entry requirements for carriers. However, the 10 agents' use of their new or expanded authority was very limited. Several factors, including restrictions by their van lines, limited some agents' use of their authority. (See pp. 8 to 14.)

ICC'S NEW AUTHORITY TO TAKE ACTION AGAINST UNFIT AGENTS

Although van lines continue to be responsible for self-regulating their agents, ICC has new authority to issue complaints directly against agents. ICC is relying on the van lines to monitor the quality of their agents' service

but has not reviewed the adequacy of the van lines' systems or activities in this area. (See pp. 36 and 37.)

ICC CAN IMPROVE ITS
MONITORING OF THE EFFECTS OF REFORM
LEGISLATION AND ITS REGULATIONS

ICC has responsibility to oversee the operations of the interstate moving industry. In addition, the Congress will need information on the implementation of the acts during its legislatively mandated annual oversight hearings.

ICC has developed a plan to review industry's compliance with its operating regulations. However, GAO believes that the plan needs to be expanded to include an evaluation of the impact of the reform legislation on the carriers and shippers. (See pp. 40 to 47.)

RECOMMENDATIONS TO THE CHAIRMAN,
INTERSTATE COMMERCE COMMISSION

To provide information to the Congress on the effects of the reform legislation GAO recommends that ICC monitor the impact of the acts and regulations on the carriers and shippers. (See p. 51.) GAO also recommends that ICC periodically evaluate van lines' systems or activities in monitoring their agents' quality of service. (See p. 38.)

AGENCY AND INDUSTRY COMMENTS

ICC agreed with the need to monitor the impact of the reform legislation and new regulations. ICC has prepared a monitoring plan. Under its plan, ICC will evaluate the industry's compliance with the new operating regulations. GAO believes that the monitoring program should be expanded to cover the impact of the acts on carriers and shippers. (See p. 51.) Although not implemented, the monitoring plan developed by ICC does require a review of a van lines' system to monitor their agents' quality of service. (See p. 39.)

The seven van lines included in GAO's review were given an opportunity to comment on parts

of the report. Four of the seven provided comments which have been incorporated in GAO's report.

Tear Sheet

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ABBREVIATIONS

COD	cash on delivery
GAO	General Accounting Office
ICC	Interstate Commerce Commission

CHAPTER 1

INTRODUCTION

The Interstate Commerce Commission (ICC) is an independent Federal agency responsible for regulating interstate surface transportation in the United States. ICC has jurisdiction over some 20,000 for-hire companies providing surface transportation--railroads, trucking companies, bus lines, water carriers, coal slurry pipelines, freight forwarders, and transportation brokers.

ICC's regulatory activities include

- issuance of operating authority (licensing);
- approval of tariff filings (rates charges);
- approval to purchase, merge, consolidate, lease, or control a company's operating rights or properties;
- approval of the issuance of securities; and
- financial oversight.

HOUSEHOLD GOODS

One segment of the trucking industry which ICC regulates is the household goods moving industry. Household goods are defined by the Interstate Commerce Act in three categories (called provisos):

- Personal effects and property used in residential homes. (Proviso 1)
- Furniture, fixtures, equipment, and property of businesses, museums, institutions, or other establishments. (Proviso 2)
- Articles, including objects of art, displays, and exhibits which, because of their unusual nature or value, require specialized handling. (Proviso 3)

The Congress is concerned with protecting the individual shipper (proviso 1) who pays his or her own shipping costs, usually on a cash-on-delivery (COD) basis. The individual shippers usually move only a few times in their lifetime and have little knowledge of the moving business. But shippers of general freight and other commodities are involved with many shipments and are knowledgeable about tariffs, rules, and schedules.

In addition to individual shippers, there are two other types of proviso 1 shippers--national accounts and the Federal Government. National account customers include large private

companies that pay for the shipments of employees' household goods when relocating employees in connection with their jobs. The Federal Government also pays for its employees moves, utilizing the services of household goods carriers.

HOUSEHOLD GOODS MOVING INDUSTRY

Household goods carriers are usually common carriers that offer transportation service to the general public at published rates (tariffs). Interstate common carriers must obtain operating authority from ICC for commodities to be transported and geographic areas to be served.

Household goods carriers that offer long-distance household goods moves usually have nationwide authority and provide service to their customers through the use of local agents and owner-operators (truck drivers). The large long-distance carriers are generally called van lines.

A van line coordinates and controls the activities of its agents and owner-operators. It receives and disburses the revenues generated, provides liability and protection for goods, and receives and processes shippers' claims.

Agents of van lines are local moving firms and number about 8,000 nationwide. Most agents are local movers operating intrastate and some have their own ICC interstate authority to haul household goods between States in their own name.

Although these local moving firms may operate under their own interstate, and their van line's interstate authority, their trucks and equipment and employees may be used interchangeably. For example, a truck may be owned by the local moving firm and still move a family's goods under the van line's authority. Agents with their own ICC interstate authority are called carrier-agents.

As an agent of a van line, the local mover gives a price estimate, contracts the move with the shipper for the van line, and directs the packing and loading of the shipment. Another agent at destination may direct the unloading and unpacking as well as handle complaints.

The other part of the industry is the owner-operators who own the tractors (truck). Owner-operators lease themselves and their tractors to a van line or agent for the purpose of hauling shipments.

The household goods industry is dominated by several very large van lines which account for a substantial amount of the shipments made and revenues earned. There were 163 Class I and Class II household goods carriers that filed reports with ICC as of August 1982. Class I are carriers with over \$5 million in

annual operating revenues and Class II are ones with annual operating revenues ranging from \$1 million to not more than \$5 million. The largest 15 carriers accounted for approximately 75.1 percent of the total revenue generated by the 163 carriers. The 5 largest of the top 15 van lines accounted for 74.6 percent of their total operating revenues for calendar year 1981. Data on Class III carriers--annual operating revenues of less than \$1 million--is not available because they do not report such information to ICC. But, according to an ICC official, class III carriers represent an insignificant portion of the industry's economic activity.

REGULATORY REFORM LEGISLATION

The 96th Congress enacted two major pieces of legislation which has substantially changed the operation of the household goods industry.

Motor Carrier Act of 1980

Section 4 of the Motor Carrier Act (Public Law 96-296) amends the national transportation policy, which is set out in the Interstate Commerce Act, by declaring that it is Federal policy regarding motor carriers of property (which includes household goods movers) to promote competitive and efficient transportation services for the purpose of accomplishing certain goals or objectives, such as meeting the needs of shippers, receivers, and consumers, and to allow the most productive use of equipment and energy resources. The Congress intended that ICC recognize the importance of competition as the most desirable means to achieve transportation goals. Efficiency in motor carrier operations was also sighted as an important factor in achieving such goals.

The Motor Carrier Act of 1980 changed ICC's regulatory authority to increase competition. One of the more significant changes was to ease entry for new trucking firms into the market and for existing firms to expand their operations.¹ Prior regulation tended to inhibit market entry, carriers' growth, and maximum utilization of equipment and energy resources.

The act also provides motor carriers with increased freedom in ratemaking and is designed to give the carrier and the shipping public the ability to structure their transportation systems around a variety of price options. Normally, ICC can investigate, suspend, revise, or revoke any rate proposed by a carrier if the rate is too high or too low. However, under a

¹Section 5 of the act removed the burden placed on the applicant for operating authority to prove that the new service is or will be "required by the present or future public convenience and necessity." Now, the applicant need only show that the proposed service would serve a useful public purpose. The burden then shifts to those opposing the application to prove the new service is not in the public convenience and necessity.

new provision of the act, if the aggregate of increases and decreases is not more than 10 percent above or below the rate in effect one year prior ICC cannot object to the change on the basis of the rate being too high or too low. The 10 percent range is called the "zone of rate freedom." Because ICC is generally not questioning rate changes, carriers are changing individual rates without using the "zone" authority. ICC investigates individual rates only when rates are protested by other parties and rates are generally not being protested.

Household Goods Transportation Act of 1980

In passing the act (Public Law 96-454), the Congress stated that

- the best means to assure a safe, stable, and financially sound system of transporting household goods is through competition and reduced regulation and
- maximum flexibility in pricing services best serves the shippers of household goods and allows a variety of quality and price options to meet market demands.

The following is a brief description of the act's more significant provisions.

- The ICC operating regulations and paperwork required of household goods carriers shall be minimized to the maximum extent feasible consistent with the protection of individual shippers. These regulations shall include reasonable performance standards for household goods carriers.
- Household goods carriers may provide the shipper a binding written estimate of charges for transportation of household goods, including proposed services. Prior to this act, carriers could only charge based on actual weight of the goods and services provided.
- Household goods carriers may establish rates for transportation which guarantee that the carrier will pick up and deliver on the days specified in its contract and provide a penalty or per diem payment if the carrier does not.
- Household goods carriers may establish a program, subject to ICC's approval, to settle disputes between such carriers and shippers. Persons authorized to arbitrate or otherwise settle disputes must be independent and capable of resolving them fairly and expeditiously.
- ICC can take disciplinary action against any agent that is involved with weight bumping (over charging) or other fraudulent acts or has been consistently unfit to provide transportation services.

Household goods moving industry legal issues posed to ICC

Since the Motor Carrier and Household Goods Transportation Acts of 1980 were passed, members of the household goods moving industry have requested ICC to resolve a number of legal issues, including the following:

- Are rate reductions through volume and other discounts legal or do they result in unreasonable discrimination among shippers or destructive competitive practices among carriers?
- Do relocation companies--firms that assist corporations, businesses, and other organizations in moving employees--qualify for volume rate discounts and, if so, under what circumstances and to what extent?
- Does a household goods carrier engage in rate or service preference or other unreasonable discriminatory practice when it provides services to a large shipper under a contract at rates below those charged to COD shippers for the same transportation?
- Are recent changes by two van lines in their pooling agreements--division of traffic, services, or earnings--with their agents who possess their own ICC operating authority anticompetitive and, therefore, contrary to the Motor Carrier Act?

The legal basis for each of the above issues as well as comments by carriers, carrier associations, and ICC are presented in appendix II.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our main objective in this review was to determine the changes that have occurred in selected aspects of the household goods moving industry since the passage of the regulatory reform legislation and the status of ICC activities to monitor the acts. We believe that this information should help the legislative committees in their annual oversight hearings--specifically required in the reform legislation. We reviewed specific provisions of the Motor Carrier and the Household Goods Transportation Acts of 1980. In addition, we attempted to identify sources of financial data on the industry to provide some indications of the financial viability of the various segments of the industry. The changes that we discuss provide information on the reaction of major segments of the industry to the new legislation. We did not determine to what extent the changes in operating practices and financial condition were caused by regulatory reform or other factors, such as the economy.

Information on changes occurring in the industry was developed at the headquarters of the five van lines having the largest total operating revenues and two medium size van lines:

Largest: Allied Van Lines, Inc.
Bekins Van Lines Co.
North American Van Lines, Inc.
Aero Mayflower Transit Co., Inc.
United Van Lines, Inc.

Medium: National Van Lines, Inc.
Wheaton Van Lines, Inc.

In addition, we visited and gathered information from 34 agents of the above van lines in the Northeast area of the country and the Chicago area. These agents were judgmentally selected--primarily on the basis of having their own operating authority.

Information that we developed on these van lines and agents may not be representative of all van lines and agents. The effects of regulatory reform on carriers and agents can differ significantly according to their size. However, the 1981 operating revenues of these seven van lines represent 59.3 percent of the total 1981 estimated operating revenues of the 163 Class I and II household goods carriers that had submitted reports by August 1982. We believe that changes made by these van lines and their agents are important examples of industry changes.

To evaluate the industry's financial viability, we analyzed for calendar years 1979, 1980, and 1981, the financial results of the 15 largest Class I van lines--in terms of operating revenues. We also analyzed 30 Class II carriers selected randomly from 134 Class II carriers that had submitted annual financial reports to ICC by August 1, 1982. Based on the sample, we were able to project financial results for the 134 carriers with a 95-percent confidence level.

Because of a lack of financial information on agents and agent-carriers (Class III carriers) and a lack of summary data on carriers receiving new or expanded operating authority, we sent 700 questionnaires to a random sample of agents (with and without their own operating authority) of the seven van lines selected. From a universe of 800 agents with their own operating authority we selected 250 agents and we selected 450 agents from a universe of 2,933 agents without their own operating authority. We were attempting to gather information on financial conditions of the agents and use of their ICC operating authority. However, the response rate for the questionnaire--only 84 questionnaires were returned--was too low to project the results to the total universe. We did not use any data from the returned questionnaires in our report. We also attempted to identify data on the financial condition of owner-operators by contacting industry associations but none was available.

Our review was performed in accordance with generally accepted government audit standards. However, some of the van lines and agents would not provide and/or did not have certain data we requested. Generally, we did not verify the data provided to us. We also used financial and operational data submitted to ICC by the van lines we visited. However, ICC did not verify this data.

We also interviewed officials of the selected van lines, their agents, and various household goods moving industry associations such as the American Movers Conference, the National Moving and Storage Association, the Household Goods Carriers' Bureau--a collective ratemaking organization--and the Movers' and Warehousemen's Association of America. We also visited ICC's regional offices in Boston and Chicago and interviewed ICC officials in those regions as well as officials in ICC's Washington, D.C., headquarters.

The seven van lines were provided an opportunity to comment on the sections of the report related to their individual operations. Four provided comments which have been incorporated in the report. (See apps. III, IV, V, and VI.)

CHAPTER 2

USE OF NEW OR EXPANDED OPERATING AUTHORITY

The Congress has enacted legislation to reform regulation of the household goods moving industry. One of the major objectives of the legislation is to increase competition among carriers. One method to accomplish this was to reduce restrictions on entry into the industry.

Although moving firms--agents of van lines--have received expanded and new operating authority, the limited use of this authority has been affected by (1) the economics of hauling, (2) restrictions of principal van lines on their agents, and (3) the cost to an agent of providing services that are usually provided by its van line.

MOTOR CARRIER ACT OF 1980--EASED ENTRY PROVISIONS

The Senate Committee on Commerce, Science, and Transportation noted in its report recommending passage of the Motor Carrier Act that the regulated portion of the trucking industry over the years has been regulated in such a way as to inhibit market entry, carrier growth, and optimal use of equipment and resources.

The Congress adopted a new procedure in the Motor Carrier Act for handling applications for operating authority which reflects the strong belief that "competition will bring about the most efficient and economical delivery of transportation service to the public."

The act changes the conditions under which ICC shall approve applications for operating authority for an interstate motor carrier of property. One of the requirements in prior legislation has been retained: all applicants must show that they are fit, willing, and able to provide transportation. The other requirement, in the prior but not the present legislation, was that the applicant had to prove that the proposed authority would be required by present or future public convenience and necessity. However, under the Motor Carrier Act of 1980, ICC is required to grant the operating authority unless it finds that the transportation would be inconsistent with public convenience and necessity. Under the prior law, the applicant had the burden of proof. Evidence necessary to prove that the transportation is "inconsistent" would have to be provided by those opposing the grant of new authority.

The act limits the carriers that may protest to (1) carriers that have performed or in good faith solicited service within the scope of the new application during the previous 12-month period (such carriers must have appropriate authority and be willing and able to provide service to meet the reasonable needs of the shippers), (2) carriers that have applications

pending for substantially the same traffic, and (3) carriers that are otherwise allowed by ICC to intervene.

Although ICC is to consider, among other things, the effects of granting an application on existing carriers, ICC, under the new act, cannot find that diversion of revenue or traffic from an existing carrier is in and of itself inconsistent with public convenience and necessity.

MOTOR CARRIERS RECEIVING OPERATING AUTHORITY

With the eased entry requirements of the Motor Carrier Act and the changes made administratively by ICC prior to the act, many new motor carriers of property have entered the motor carrier industry and existing motor carriers of property have expanded their operating authority. Motor carriers of property include all types of goods--only one being household goods.

The process of easing entry requirements had actually started much sooner than the act's effective date. An ICC task force study on motor carrier regulations dated May 1979 noted:

"The Commission has in recent years adopted a wide range of rule changes and policy revisions directed at rationalizing regulation of the motor carrier industry. The intent of these changes has been to reduce the extent of regulatory intervention by reducing entry barriers in many markets and by requiring rates to be determined by more competitive means than those sanctioned by the existing collective ratemaking process."

As a result of ICC's administrative changes prior to the Motor Carrier Act, greater numbers of motor carriers of property have received expanded or new permanent operating authority. The chart on page 10 shows the total number of carriers granted permanent operating authority in fiscal year 1976 through the first 6 months of fiscal year 1982. The portion of these carriers receiving ICC's interstate authority for the first time (new carriers) is also shown:

<u>Fiscal years</u>	<u>Carriers granted new or expanded authority</u>	<u>Carriers granted new authority^a</u>
1976	4,710	468
Transition quarter (7-1-76 to 9-30-76)	958	156
1977	6,038	850
1978	8,684	528
1979	12,233	689
1980	22,125	1,423
1981	27,475	3,702
1982 (first 6 months)	7,771	3,017

^aFigures include only applicants granted new operating authority. All these carriers are also included in the first column.

The percentage of processed applications that resulted in a grant of some authority has also risen. For example, only 69.8 percent of cases resulted in a grant of some authority in fiscal year 1976 whereas that figure rose to 96.7 percent in fiscal year 1981 and 97.5 percent for the first 6 months of fiscal year 1982.

HOUSEHOLD GOODS MOVERS--OPERATING AUTHORITY

Although ICC computerizes data on grants of permanent operating authority, grants to move household goods cannot be summarized by the system. Therefore, data on the numbers of household goods carriers granted new or expanded authority is not readily available. We have included information relating to new or expanded authority for a very small number of carriers we contacted, but this information may not be representative of other carriers. We developed such data on a limited number of agent-carriers of the van lines we visited during our review.

New or expanded operating authority by agents we contacted

We contacted 34 agents of the seven van lines selected for review: five from each van line except National. Of the 34 agents, 25 had received interstate operating authority before the Motor Carrier Act was passed. Their operating authorities included as few as 2 States to as many as 28 States. However, the portion of agents having interstate authority is not representative of the total universe of agents of the seven van lines. We purposely selected agents that had their own authority to develop data on agents' use of their own authority. We know, based on data collected from each of the seven van lines, that approximately 20 percent of their agents now have their own interstate operating authority.

Five of the nine agents which did not have their own interstate authority were agents of Allied Van Lines who are not allowed by Allied to hold their own ICC authority.

Since the act was passed, 8 of the 34 agents expanded their interstate authority and 2 received ICC interstate authority for the first time.

Many of the agents we contacted in New England that received additional authority under the new act had authority prior to the act in the six New England States plus one or more of the adjacent States (New Jersey, New York, or Pennsylvania). When they expanded their authority, most received authority south along the east coast to as far as Florida.

These agents gave various reasons for applying for additional authority. Some agents were after selective markets. For example, one agent wanted authority in one State with a certain military installation so that it could handle moves from one installation located in the agent's State to the other installation. Another agent wanted to make more moves under its authority rather than the van line's authority. Two agents expanded because they believed that the authority may be valuable in the future if ICC again tightens its entry policy. One agent indicated that it would not use its new authority unless it had problems with the van line.

Agents we contacted are not using new or expanded authority

Of the 25 agents having interstate operating authority before the act, 22 told us that they used their authority to some extent. Only 1 of the 10 agents receiving new or expanded authority under the act used its new authority to any extent. The one agent had expanded from 8 to 14 States in March 1982 and had used this new authority 18 times as of July 1982.

Three major reasons given by agents we visited for not using their new authority were (1) the economics of hauling, (2) restrictions by van lines, and (3) the cost of providing services usually provided by the van line.

Economics of hauling

Of the eight agents that expanded their authority, four had authority prior to expansion to operate in States (7 to 11 States) that covered distances up to about 600 miles. The agents said that they could profitably operate in this area without return shipments and, therefore, could use their own authority. Trucks with shipments handled by the agent (under the van line's authority) will be given goods to transport back to or close to their original departure (backhauls), when available, by the van line to prevent trucks from returning empty. In addition, trucks can operate profitably in this limited area

without always being completely filled. (A fully loaded moving van usually carries shipments for about three families.) Agents have difficulty in finding more than one family moving to the same area at the same time.

The expanded authority the four agents received increased their authority to a range of 19 to 22 States and covers distances of about 1,500 miles. Most agents said that they could not profitably operate in this expanded area without obtaining return shipments or operating fully loaded trucks. However, these agents said that they could not obtain return shipments on their own because they do not have offices in many of the States or locations for which they hold operating authority.

Two United Van Lines agents indicated that United may sometimes help in obtaining a return shipment(s) when an agent sends out a shipment under the agent's authority. United will provide backhaul shipments as well as combining an agent's shipments (under the agent's authority) with van line shipments from other agents if the agent will agree to haul under its own authority only shipments traveling 750 miles or less. In commenting on our report, United Van Lines stated that its approach encourages agents to use their own authority for those shipments which the agents can handle profitably, short distance regional moves not requiring return tonnage or other coordinating services to operate profitably. United also stated that, for return shipments, agents hauling under United's authority are given priority over agents hauling under their own authority when handling shipments in excess of 750 miles.

Van lines and the agency system, however, were created to allow agents to operate over long distances efficiently. Van lines generally have authority to operate in all 48 contiguous States. Agents use the van line's authority and thereby receive the economic advantage of (1) combining household goods shipments from more than one agent to assure full truck loads and (2) providing backhaul dispatch service so that their trucks do not have to return empty.

Restrictions by van lines

Van lines placed restrictions on the agent's use of its own authority. As suggested above, one restriction is that van lines will normally not provide backhauls to their agents when they are operating under their own authority.

In many ways, a van line places implied or expressly stated pressure on its agents to either limit or totally prevent the use of their own operating authority. Three agents, expressing their views about the van lines with which they are associated, said that their principal van lines would probably terminate their agencies if they made extensive use of their new authority. One of these agents also said that its van line normally gives each agent exclusive rights in a specific geographical

area, and, therefore, would not give an agency agreement to another local moving firm. However, after this agent expanded its authority, the van line told this agent that the van line no longer considered it necessary to protect its exclusive area. If this agent uses its new authority extensively, the van line would appoint a new agent in the territory and may even terminate the agency, according to the agent. Another agent said that it cannot use its own authority because of sales quotas imposed by the van line.

United Van Lines, in commenting on the report, expressed concern about the implication that van lines are unduly imposing their will on agents, noting that the three agents may be correct about their van lines' attitude of terminating agents who make extensive use of their own authority. But United stated that this is not true at United, noting that its rules were developed by its own agents. United added that 130 of its nearly 600 agents set policy governing United's operations.

A more direct approach to discourage agents from using their authority has been taken by North American Van Lines. After January 1983 all agency contracts that are new or renewed will require the agents to give up their interstate authority or to establish new companies with separate equipment for use with the agents' authority. Agents usually used the same facilities for the van lines' operations and their own operations, and the van line's name and logo appear on the trucks, uniforms, and building used in their own operations. According to one agent, establishing a separate company would be very costly. The agent stated that the new policy of North American would require an agent to (1) advertize separately, (2) maintain a separate telephone system, and (3) hire separate personnel.

One North American agent said that he would give up his authority if the van line gave him a long-term contract. Two other North American agents had not decided what they would do when their contracts expire.

North American agent-carriers have requested ICC to intervene in their behalf and determine if such actions are anti-competitive. A full discussion of the legal issues in this action is presented in appendix II.

Cost to provide various services

The last problem limiting the use of an agent's own authority is the financial resources needed to provide various services such as handling paperwork, carrying receivables, providing claim settlement, and purchasing new equipment to serve new areas. If an agent uses the van line's authority, such services are provided to the shipper by the van line. When operating under its own authority, the agent must provide these services at its own cost.

CHAPTER SUMMARY

Although our data is limited, some agents have received new or expanded operating authority under the Motor Carrier Act. Based on a limited number of contacts with agents of the van lines we visited, some of the agents had received new or expanded authority since the act was passed. Agents that discussed the act with us identified factors which limited their use of new or expanded operating authority.

CHAPTER 3

NEW PRICING TECHNIQUES

The Congress, by enacting the Motor Carrier and Household Goods Transportation Acts, desired to improve competition and reduce regulations. To encourage price competition, carriers were given greater flexibility in setting rates. Carriers are now offering volume discounts to shippers that provide a minimum required amount of business and are making contracts with volume shippers at a discount. In addition, the Household Goods Transportation Act established a new pricing alternative where shippers can be given a firm, fixed price before the household goods are moved--binding estimate--rather than requiring that final charges be based on the shipment's actual weight. Van lines we visited--except one--did not encourage their agents to provide binding estimates, and few shippers moved under binding estimates in 1981.

Many van lines and household goods industry associations are questioning these techniques.

--Volume discount programs and contract agreements provide discounts to corporate accounts only. Individual shippers that would normally make one shipment a year cannot qualify for these programs.

--Binding estimates can be used to fluctuate their charges based on competition.

In an attempt to further increase price competition, ICC now permits an agent with its own operating authority to establish prices which differ from its principal van line. However, we found that most of the agents we visited did not intend to establish prices which would differ.

PRICE DISCOUNTS

Greater pricing flexibility under the regulatory reform legislation has resulted in carriers' use of two major discounting techniques:

--Volume discounts are percentage reductions from the tariff rates provided to shippers that provide a carrier with a minimum required amount of household goods moves.

--Contract carriage agreements are negotiated contracts between a carrier and a volume shipper that provides a discount from the tariff rates.

These discount programs are not available to individual shippers. Due to the minimum number of shipments or dollar

amounts needed to qualify, volume discount programs are only available to the national account shippers--companies moving their employees. Therefore, individual shippers that ship their household goods once in any one year could not qualify for the discounts. Contract carriage agreements are negotiated with national account shippers.

Generally, van lines in our review have continued to charge the same rates to individual shippers. These rates were increased in unison when the Household Goods Carriers' Bureau, an industry collective ratemaking organization, published industry-wide tariff increases through ICC.

Volume discount programs

All seven of the van lines we reviewed are offering volume discount programs. While the volume discount programs offered by the van lines are similar, there are differences in the way a shipper would qualify and the percent of the discount. The table on page 17 provides the various methods of qualifying and the discount percentages with their qualification categories:

<u>Van lines</u>	<u>No. of ship- ments needed to qualify</u>	<u>Cumulative weights needed to qualify</u>	<u>Line-haul revenues needed to qualify</u>	<u>Discount percent</u>
----- (Pounds) -----				
Bekins	10 or more	-	-	7
North American	-	-	\$ 10,000 - 100,000	10
			101,000 and over	12
United ^a	-	-	10,000 - 99,999	10
			100,000 and over	12
National	10 - 99	-	-	16
	100 or more	-	-	18
Allied	10 - 49	-	-	10
	50 - 99	-	-	11
	100 and over	-	-	12
Mayflower	-	-	25,000 - 49,999	2
			50,000 - 99,999	3
			100,000 - 199,999	5
			200,000 - 299,999	6
			300,000 - 399,999	7
			400,000 - 499,999	8
			500,000 - 999,999	10
			1,000,000 and over	12
Wheaton	-	100,000 - 1,249,999	-	10
		1,250,000 - 2,249,999	-	12
		2,250,000 or more	-	15

^aIn commenting on our report, United stated that its discount percentages were increased on November 1, 1982:

	<u>Percent</u>
\$ 10,000 - 99,999	10
100,000 - 249,999	12
250,000 and over	15

Individual shippers that would normally only make one shipment in a year cannot qualify for these programs even if the cost of their move is more than the program's minimum qualifying amount. Programs are set up to provide discounts on shipments after the minimum is exceeded during a certain time period and, therefore, a single-move shipper would not qualify.

Similarities and differences exist in the procedures and requirements for the various discount programs among the seven van lines included in our review. For example, North American, United, and Mayflower, that base their programs on dollars of revenue, applied discounts on the line-haul transportation charges and not on any additional charges, surcharges, seasonal rate adjustments, or charges for storage in transit. Line-haul charges include the normal cost to load the goods on the truck, transport them to their destination, and unload them but not

packing or unpacking, storage, or other special services. The cumulation of revenues needed to qualify for discounts are also limited to line-haul charges. In addition, each program applies to shipments moving among the contiguous 48 States and between any contiguous State and Canada.

For North American's program (see p. 17), the 10-percent discount would be applied to the line-haul revenue of each qualifying shipment beginning after the \$10,000 cumulative line-haul revenue level has been met or exceeded within a year, starting after the effective date of the program.

Under United's Volume Saving Plan, the discount is based on the billed line-haul revenue for the previous 12-month period. For example, if cumulative line-haul revenues from May 1, 1981, through April 30, 1982, amounts to \$24,000, the line-haul volume discount rate on shipments loaded during the month of June 1982 would be 10 percent. There is a 1-month delay between the months of discount calculation and discount application.

Statistics on the use of volume discounts by national accounts were not readily available. Allied declined to provide us the information indicating that it would not expend resources needed to develop the statistics; Mayflower indicated that data was unavailable. At the time of our request, National's program was not in effect.

Bekins indicated that for the 5-month period November 1981 to March 1982, 55 percent of its corporate account, line-haul revenue had been discounted, representing a total of \$722,000 in discounts.

Wheaton provided volume discounts to 101 shippers from May 1, 1981, to April 30, 1982. Approximately 4,737 shipments out of 10,739 commercial shipments were discounted for a total discount of \$300,663.

For United, the number of shipments for which discounts were applied was not available; however, the total dollars of discounts for the period from July 1, 1981, to December 31, 1982, was estimated by United to be \$4.5 million.

Under North American's volume discount program, 3,600 shipments were discounted for an estimated total discount of \$308,000 in calendar year 1981 (program's effective date--May 6, 1981).

In our visits to agents, 8 of the 27 agents who had their own operating authority (25 agents had authority under the prior act and 2 agents received new authority) offered a volume discount program under their own authority. Seven of the eight agents offered a program that was identical to their principal van line's program. The eighth agent developed a separate program which provided discounts with lower minimum shipment requirements than its principal van line.

Five of the eight agents offer volume discount programs to better compete with other local moving companies; one said that some of his commercial accounts were considering using a different company because he did not offer a volume discount program. The other three agents only offer the program because they use their van lines' programs. Five agents were unable to provide information on the number of discount moves made; the other three had made very few moves under their own programs.

Contract carriage

Motor carriers of property hold two types of operating authority--common and contract. Van lines generally hold common carriage authority--offering transportation of property to anyone (general public) for prices that are published in tariffs. Under contract carriage authority, a carrier also provides transportation of property but to one or more specific firms under continuing contracts for prices stated in the contracts.

Carriers, historically, have not been allowed to hold both types of authority. However, ICC adopted a rule change, effective June 1, 1978, which substantially removed the existing impediments. The Motor Carrier Act of 1980 eliminated remaining impediments. According to the Household Goods Carriers' Bureau, before the Motor Carrier Act most contract carriage by household goods carriers involved proviso 3 shipments, but since the act van lines have been using contract carriage authority for proviso 1 shipments as well.

This change has lead to a new type of discounting authority. Under contract carriage, van lines can now provide volume shippers percentage discounts which can apply to any services, such as packing, not just line-haul revenue charges. In contrast to volume discounts which are available to any commercial shipper that can meet the minimum amounts, discounts under a contract are available only to the shipper that negotiated the contract.

All of the van lines we contacted have either entered into contract carriage agreements or are in the process of negotiating such contracts. As shown in the chart on page 20, the number of contracts is expected to increase in the near future.

<u>Van lines</u>	<u>Contracts</u>	<u>Contracts in negotiation or awaiting ICC approval</u>
Bekins	1	19
Allied	-	30
North Americana	4	65
United ^a	2	22
National	1	-
Mayflower	6	1
Wheaton	<u>1</u>	<u>1</u>
Total	<u>15</u>	<u>138</u>

aIn their January 1983 comments on our report, United and North American stated that they had, at that time, 20 and 25 contracts in effect and 47 and 200 in negotiation or awaiting ICC approval, respectively.

Many van lines and industry associations object to discount programs

Van line officials have indicated that the new truck reform legislation and the poor economy have created price competition. However, many officials believe that discounts discriminate against COD shippers.

Officials of both Wheaton and Mayflower Van Lines told us that commercial shippers are receiving significant discounts from volume discounts and contract carriage. With the number of moves decreasing in 1981, van lines have attempted to attract business by aggressively competing for commercial business. They added that individual (COD) shippers may eventually pay higher prices to make up for the revenues lost through discounts.

The Vice President of Sales for North American stated that the greatest impact of price competition will be on agents and independent owner-operators. According to an ICC official, owner-operators receive about 55 to 65 percent of a line-haul charge, agents get about 20 percent, and the van lines take the balance (about 15 to 20 percent). When prices are discounted, the owner-operator and agent lose more money on each shipment than the van line.

Certain van line officials said that contract carriage provides few benefits to the van line. Some contracts do not require the shipper to provide the carrier a minimum number of moves. According to North American, most household goods contract carriage agreements do not have minimum volume requirements for the shipper to receive a discount.

Household goods moving industry associations and some van lines have petitioned ICC, questioning the legality of the

volume discount programs, contract carriage, and other discount programs. The two cases discussed below are more fully discussed in appendix II.

A petition of January 29, 1982, to ICC by the Movers' and Warehousemen's Association of America, a trade association predominately for small carriers, argued that present discount programs violate national transportation policy which encourages the establishment and maintenance of reasonable rates without unreasonable discrimination or unfair or destructive competitive practices. According to the association volume discounts discriminate against the individual or small commercial shipper that is unable to qualify for volume discounts.

In a January 6, 1982, petition to ICC, the Household Goods Carriers' Bureau, later joined by the American Movers Conference, a trade association of household goods carriers, questioned the legality of contract rates for national account shippers. Again, the question was raised whether a common carrier of household goods is in violation of rate preference or other discriminatory practices when entering into a contract with a national account shipper at rates below those charged to individual shippers for the same transportation.

MOST CARRIER-AGENTS WE VISITED ARE
NOT ESTABLISHING RATES THAT DIFFER
FROM THEIR VAN LINES

An agent operating under its own authority can now offer a rate other than the van line's rate for services between the same points. However, only two of the 34 agents we visited had established different rates.

In its changes to the household goods operational rules, ICC revoked a rule, 49 C.F.R. 1056.18 (1980), which provided:

"No such [household goods] common carrier shall act as agent for any other such common carrier in the solicitation of shipment of households goods * * * between points which such agent is authorized to serve and for which it shall have established different rates than those of its principal."

ICC noted in its proposal to cancel this rule that the prior rule appeared to be in violation of the intent of the Household Goods Transportation Act of 1980 because compliance with the rule would be contrary to the act's antitrust provisions. That is, the act granted antitrust immunity for only specific activities between agents and van lines. However, the situation of agents and their van line charging the same rate was not one of the activities that is granted antitrust immunity.

In May 1981 certain van lines, the American Movers Conference, and the Household Goods Carriers' Bureau filed a suit against ICC objecting to various final rules, including the cancellation of 49 C.F.R. 1056.18. In chapter 5 we discuss this suit in detail, but we do not discuss this particular rule.

In addition to its antitrust argument, ICC noted that an additional reason for canceling this rule was to increase the "price and service competition between and among principal carriers and their agents."

In ICC's response in this case, it stated that:

"In setting the fundamental policy goals of the HGTA [Household Goods Transportation Act] Congress declared the 'best means of assuring a sound household goods transportation system' is through competition and reduced regulation* * *." [Emphasis added].

ICC also noted that the Congress in this act stated that maximum flexibility in pricing of carrier's services best serves the shippers and allows a variety of quality and price options to meet market demands. These goals are now part of the national transportation policy and a major rationale for both the Motor Carrier and the Household Goods Transportation Acts of 1980.

The court, in agreeing with ICC, stated that:

"The Commission very appropriately eliminated those vestiges of the old anticompetitive Bulwinkle philosophy in executing its mandate to 'review and revise' its household goods regulations in order to carry out the purposes and policies of the 1980 legislation."

Of the 34 agents we visited, 2 had established prices that differed from their van lines. One agent had developed its own volume discount program to compete with other local agents. None of the agent's other prices varied from that of its van line. The program offered by the agent's van line required a shipper to make 10 moves to qualify for a discount, whereas, the agent's program required only 3 moves to qualify. The other agent said that it would not adopt a 9.2-percent rate increase adopted by its van line in order to better compete with other local interstate movers.

None of the other 32 agents planned to develop prices which differed from its van line in the foreseeable future. Some agents indicated that establishing different rates would be very costly and time consuming. Another noted that two separate rates would create a chaotic environment for its employees. Some officials of the van lines said that van lines would most likely drop agents that competed with the van lines for long-distance moves. Another van line does not allow its agents to

quote different rates, according to an official of that van line. United Van Lines, in commenting on the report, said that competition encouraged by regulatory reform should be between van lines and not between a van line and its own agents.

In commenting on our report, North American stated that 194 of its 230 agents having their own operating authority have rates in effect that differ in some respect from North American's rates. However, North American did not explain how many of these were minor or major rate differences.

BINDING ESTIMATE

The Household Goods Transportation Act authorized van lines to provide a shipper with an estimate of the cost of a move which is binding. An estimate is a price quoted for the performance of services to be rendered. Under ICC's prior regulations, a household goods estimate--an assessment of their weight plus other incidents of service, such as distance--could not be binding. Actual charges had to be based on the shipment's actual weight. Under the actual weight method, if a shipper received a low estimate but the actual weight of his or her shipment was significantly higher, then the charge would be higher. This requirement resulted in a great deal of consumer dissatisfaction. As a result, section 4 of this act allows carriers the option of providing a shipper with a written binding estimate.

The seven van lines we visited offered binding estimate programs. The binding estimate programs of the van lines are generally the same. The shipper receives a written estimate that is binding and will be charged that amount upon delivery of his or her goods. An additional assessment will not be made even if the shipment's actual weight would justify such. Under a binding estimate, a van line would not need to weigh the shipment. Only one van line--Wheaton--developed its program so that the shipper pays the lower of the binding estimate or actual weight charge.

Another difference between van lines' binding estimate programs exists. Three van lines' binding estimates include all normal destination charges where the others did not. An official of one van line that did include normal destination charges indicated that only unusual destination charges would not be included in their binding estimate. Occasionally, the moving van is unable or prohibited from delivering the shipment directly to the destination residence. For example, the shipment may have to be loaded on a smaller truck for delivery. This unusual charge would not be included in the binding estimate.

Those van lines not providing binding estimates for destination charges said that certain things at destination cannot be perceived by the origin agent; for example, the need to carry goods up a flight of stairs. Therefore, these charges were not included.

Limited use of binding estimates

Although the seven van lines we reviewed offered binding estimates in 1981, only one van line--Bekins--utilized this option to any great extent. The following table shows the number of shipments using binding estimates in calendar year 1981 by the seven van lines we reviewed.

<u>Van lines</u>	<u>Date program became effective</u>	<u>No. of shipments involving binding estimates in 1981^a</u>	<u>Total COD and national account shipments</u>
Bekins	01/21/81	47,067	77,571
North American ^b	08/13/81	399	115,311
Allied	07/06/81	137	184,262
National	05/31/81	32	7,023
Wheaton	06/11/81	59	5,288 ^c
Mayflower	09/08/81	202	36,717 ^c
United ^b	09/08/81	137	101,579

^aCovers period from date program became effective to December 31, 1981.

^bIn commenting on our report, United reported preliminary figures for calendar year 1982 of 2,578 out of 195,211 shipments, and North American reported 5,614 out of 113,683 for the same period.

^cCovers the period of July to December 1981 and includes only COD shippers because national account shippers did not use this program.

The effective dates shown above are the starting dates of the van lines nationwide binding estimate programs. On May 1, 1981, North American, Mayflower, and United first began offering binding estimate programs in selected cities and counties in a limited number of States.

Most of the agents we visited that had binding estimate programs under their authority provided little or no moves under the program. Of the 27 agents having their own operating authority, 15 offer the same binding estimate program as their van line. The remaining offer no program. Eight of the 15 had made no binding estimates under their own authority, and the range for those that had made binding estimate moves was from 1 to 15 moves from the start of their program until the time of our visit (December 1981 to June 1982).

According to agent or van line officials, several factors have limited the use of binding estimates during 1981. National accounts generally prefer charges based on actual weight. The van lines we visited did not offer binding estimates for the full year. As noted above, some initially operated test programs in selected geographical areas and subsequently expanded

their programs nationwide. The most significant factor, we believe, is that van lines--except Bekins--did not encourage their agents or shippers to use binding estimates.

All of the binding estimate programs--except Bekins--offered by the van lines we visited penalize the agent for low estimates. The most common penalty system allowed the agent an underweight variance of a certain percent--usually 10 percent--before a penalty was assessed. The so-called chargeback system guaranteed that the van line and owner-operator transporting the shipment would receive at least 90 percent of the revenue they would have earned if the shipment had moved under a nonbinding estimate, that is, based on actual weight. The chargeback system required that each shipment moved under a binding estimate be weighed. If the binding estimate price causes the shipper to receive a discount of over 10 percent of the actual weight cost, the agent is penalized through a reduction in its share of the line-haul revenue equal to the amount necessary to meet the 90-percent guarantee.

As a result, officials from all of the van lines we visited except Bekins said that their agents did not encourage shippers to use binding estimates. Only Bekins required its agents to give binding estimates on all COD shipments over 3,500 pounds. The other van lines have left the option up to each individual agent.

Almost all agents we visited believe that binding estimates have significant disadvantages and most provide a binding estimate only when specifically requested by the shipper. Some of these agents said that they discourage shippers from requesting such estimates. For example, one agent said that many shippers do not know whether they will move all of their household goods. Any salesman can easily convince a shipper to use a nonbinding estimate by explaining that, with a nonbinding estimate, he or she will pay only the cost of moving the items actually moved.

Of the seven van lines we contacted, four said that they plan to increase the number of binding estimates in the future generally to be more competitive with other van lines and their agents using binding estimates. These van lines said that they will increase advertising, offer binding estimates on proviso 2 and national account shipments, and remove the booking agents' penalty for low estimates. For example, Mayflower dropped its chargeback system in February 1982 so that binding estimate shipments are weighed only if the owner-operator believes that the weight has been significantly understated. Not weighing shipments eliminates any method of chargeback. In another example, United planned to allow agents a 20-percent weight variance under actual before a chargeback penalty will be assessed against the agent. At the time of our visit, the variance allowed was 10 percent. In commenting on our report, United and North American reported that binding estimates for calendar year 1982 shows a significant increase has occurred in their use. (See note b in the chart on p. 24.)

In a September 1982 staff report developed by ICC's Chief, Compliance Branch, Office of Compliance and Consumer Assistance, ICC stated that it had reviewed data from a questionnaire provided to household goods shippers as a part of an ICC information pamphlet. Carriers are required to give the pamphlet to all shippers. Based on a review of data from questionnaires received during the first 7 months of 1982, the study noted that the use of binding estimates was expanding in 1982 and estimated that 15 to 20 percent of all shipments for individual shippers would be moved under binding estimates in 1982. The study concluded, however, that there is nothing to suggest that the attitude of the carriers toward binding estimates had changed or that there will be a major shift to using binding estimates. In commenting on our report, United disagreed with the study's conclusion, noting that United believes that carriers are more aggressively marketing binding estimates and, based on United's experience, individual shippers are taking greater interest in them.

Shippers may be assessed a premium
or receive a discount

The Congress, in authorizing the use of binding estimates, recognized the significant benefit to the shipper in receiving a price prior to the move that will not be changed. However, charges on binding estimates can vary from the price a shipper would have paid based on actual weight.

Binding estimates can be used as a pricing mechanism. According to one van line official, agents were allowed to vary the density in estimating weight to meet price competition. A Bekins official explained that estimates are made on a volume basis; each box or piece of furniture is given an approximate volume figure. Total volume of all household goods for one shipment is converted to weight/pounds by applying a density figure which is usually 7 pounds per cubic foot. By reducing the density figure to 6 or 6.5, a lower weight and price can be charged.

It should also be recognized that, during the peak moving season, when a van line or an agent may be operating at capacity, that is, having all the business that can be handled, the possibility exists that the density and/or total volume figure could be raised. This could result in a shipper paying a higher price than he or she would have paid under an actual weight basis. Agents told us that it is possible that shippers could receive discounts in areas of extensive competition and pay premiums in areas of limited competition.

In commenting on our report, United believes that individual shippers are not paying a premium, particularly in the current operating environment when competition for every shipment is fierce, even in peak season. A management official of United stated that as a result of the poor economy, fewer people are

moving, which results in excess capacity. According to the official, van lines are offering such things as volume discounts and contract carriage in an effort to fill excess capacity. COD customers are also benefiting from discounts through the binding estimate programs. He noted, however, that he believes the rates COD shippers pay will go up when the economy improves and current excess capacity disappears. We believe that, as this excess capacity disappears, COD shippers will more likely pay premiums on their household goods moves.

In addition, ICC will not be able to adequately monitor the reasonableness of binding estimates since shipments do not have to be weighed. In its September 1982 staff report, ICC noted the following when it attempted to review binding estimates to determine if rates charged were predatory:

"Evaluation of the data and making the intended review was severely impeded by the absence of a scale weigh on all of the binding estimate shipments transported by Bekins and United."

ICC also noted that a portion of the binding estimate shipments of Allied and North American did not include scale weights.

Other disadvantages mentioned by agents and van lines include:

- It is necessary to prepare a detailed and time-consuming inventory at the time of estimate.
- The driver must ensure that only the goods included in the estimate are shipped.
- Estimating is not an exact science and it is difficult to give accurate estimates. (Under estimating results in loss of revenues.)

Some of the van lines have reviewed the reasonableness of their binding estimates. Bekins analyzed 1,787 national account shipments to determine the accuracy of their binding estimates. The analysis revealed that the weight on 296 shipments was overstated by more than 20 percent and the weight on 300 shipments was understated by more than 20 percent.

Reviews of binding estimates performed by Allied and North American did not provide data on the significance of weight variance (over and understated). Allied provided only average variance of shipment weight and total charges on 312 shipments reviewed. Allied data showed that the estimated weight averaged 3 percent below actual and total charges collected on binding estimates averaged 2.4 percent below charges based on actual weight.

North American reviewed 17 moves by binding estimate; comparing estimated charges versus tariff charges (based on actual weight). It found that, on the average, binding estimate charges were 3.7 percent below tariff charges.

As noted earlier, ICC reviewed binding estimates of the five largest van lines to determine if they were provided on a nonpreferential basis and did not result in predatory charges. ICC's staff study concluded that

"No information was developed to support a conclusion that any carrier is offering service under the binding estimate concept on a preferential basis."

However, because of a lack of scale weights, as noted earlier, comparisons were made of average revenue per item transported under binding and nonbinding estimates. We believe that comparisons to actual weights would be more accurate and result in a reliable conclusion regarding predatory charges.

ICC's staff study stated that:

"Should the marketing and pricing of household goods transportation services using binding estimates become the accepted rule, the potential for discrimination between shippers will be present."

The study further states

"* * * it is possible that carriers will use binding estimates to attract traffic they would not receive otherwise and to discourage the tender of traffic they do not want or need. The potential appears to exist for carriers to 'elect' to not provide binding estimates or, if such estimates are offered, the charges per item may exceed the charges provided by the rates in the tariffs when there is an abundance of available traffic. On the other hand, shippers in those parts of the country where traffic is scarce may find that, with a minimum of negotiating, the estimates of their charges may be appreciably below the level of the tariff charges."

CHAPTER SUMMARY

All of the van lines we visited have utilized the new price flexibility encouraged by the new regulatory reform legislation. This flexibility has taken the form of volume discount programs and contract carriage agreements with corporate shippers. Volume discounts and discounts under contracts are not available to the individual shipper. Some van lines and industry associations are objecting to such programs on the basis of alleged discrimination to individual shippers as well as other issues.

Under the Household Goods Transportation Act, binding estimates were authorized to allow van lines to provide shippers a firm, fixed price before a move. All of the van lines we visited established programs to offer binding estimates to shippers. However, only Bekins Van Lines actually required its agents to offer shippers' binding estimates. Other van lines did not encourage their agents to provide such estimates by establishing chargeback systems. As a result, few moves were made using binding estimates in the industry in 1981. However, it is expected that a greater number have been made in 1982 due to competition and changes the van lines made in their programs.

Binding estimates can be used as a pricing mechanism. This allows a van line or its agents to increase or decrease its price estimate based on competition or the lack of competition. As a result, shippers can be assessed premiums or granted discounts over the price they may otherwise pay on an actual weight basis. Without shipments being weighed, there is no way to accurately determine if any significant premiums or discounts are occurring.

CHAPTER 4

NEW SERVICES TO SHIPPERS

AND NEW ICC AUTHORITY

The regulatory reform legislation resulted in the following new services:

- Guaranteed pickup and delivery service can be offered which provides per diem payments to shippers for delays beyond agreed dates. Four of the seven van lines included in our review offer this service.
- Dispute settlement programs provide independent arbitration of disputes between carriers and shippers rather than court settlements. All but one of the seven van lines included in our review are using a dispute settlement program developed by an industry association.
- Full value protection programs offer replacement cost coverage for lost or irreparably damaged goods. All of the van lines had developed and were using such programs.

The reform legislation also gave ICC new authority. The Household Goods Transportation Act provides ICC the authority to take action against agents considered unfit or involved in fraudulent acts where the van lines have been unwilling or unable to do so. However, the act places the principal responsibility on van lines for the acts of their agents. In implementing this statutory provision, ICC is relying primarily on the van lines to assure that their agents are providing adequate service. But, ICC has not reviewed the van lines' monitoring systems to assure that their monitoring is adequate.

GUARANTEED ON-TIME PICKUP AND DELIVERY

Under section 4 of the Household Goods Transportation Act of 1980, motor common carriers are allowed to establish rates which will

"* * * guarantee that the carrier will pick up and deliver such household goods at the times specified in the contract for such services and provide a penalty or per diem payment in the event the carrier fails to pick up or deliver such household goods at the specified time."

The intent of this section, as noted in a House committee report, is to address a major consumer problem, that is, carriers' failure to pick up or deliver at agreed times. Under the prior law, carriers were required to provide service with reasonable dispatch. If a carrier failed to comply with its agreed delivery time, a shipper could have a claim for damages against

the van line called an inconvenience claim. However, if the van line denied the claim, a shipper would have to bring action in court. This section provides for an alternative method for handling this problem.

Four out of the seven van lines we reviewed offered guaranteed pickup and delivery service. The four programs are similar in several ways. The carrier agrees to pickup and deliver during a period of time (a day or a number of consecutive days). Shipments are guaranteed only for goods (1) weighing a minimum amount, usually 3,500 pounds, (2) not delivered to storage or loaded from storage, and (3) shipped within the Continental United States. None of the four van lines charged fees for this option. If a carrier fails to pickup or deliver during an agreed date or days a penalty is paid for each day missed. Allied, Mayflower, and United Van Lines pay \$125 per day of delay and Bekins pays \$100 per day; Mayflower will pay a per diem rate of 10 percent of line-haul cost if that is greater than \$125.

Shippers can also claim reasonable inconvenience expenses in addition to the per diem penalty for three of these four van lines. Inconvenience expenses would be those incurred by the shipper and family for meals and lodging due to the delay in delivery. Usually limits are set on the compensation that will be paid.

Three of the seven van lines do not offer guaranteed pickup and delivery service. A North American official said that the van line can compete without offering this service. They do pay shippers' inconvenience claims, as they did before the new act. National does not offer guaranteed pickup and delivery because, according to an official, it would only increase the van line's liability without additional compensation. Wheaton's President said that the program is not offered because delays in pickup or delivery usually result from circumstances beyond the carrier's control and the carrier should not pay a penalty for such delays. However, he also said that timely service is a carrier's responsibility and shippers should not incur any harm from delays. Thus, Wheaton will pay inconvenience costs--reasonable lodging costs plus \$5 per day per person for meals.

Ten out of the 27 agents with independent operating authority we reviewed offered the guaranteed service. The agents generally offer the same programs as their principle van lines. Those that offer the program do so because they believe the program would not hurt them financially. Deliveries by agents under their own authority are generally short distances and less dependent on combining them with other loads and, therefore, there is little risk of missing a pickup or delivery date. Some of those agents that do not offer such guaranteed service gave the same reason; noting that there was no need to offer the service because they almost never miss a pickup or delivery date.

Use of the programs

The extent that shippers use the guaranteed pickup and delivery option was difficult to measure due to the lack of adequate data.

Allied provided us with no data on the number of users nor claims received on the program. Bekins stated that it did not have statistics on the number of users but paid 1,490 late penalty claims in 1981 totaling \$426,000.

From November 1, 1981, through March 15, 1982, Mayflower made 1,119 guaranteed service shipments (821 COD's and 298 national accounts) out of a total of 31,287 shipments or 3.6 percent. Mayflower officials did not know why so few guaranteed service moves had been made. One Mayflower official said that shippers may not be informed about the service. As of March 15, 1982, Mayflower had paid five claims under the program totaling \$1,082.

United could provide data only on the basis of completed cases, that is, final paperwork processed. During the first quarter of 1982, United completed 9,097 shipments that were moved under the guaranteed service. This represented 22 percent of all shipments hauled during that quarter; however, some of these shipments did not qualify for the service, but United did not identify these. Only 38 per diem penalty claims had been filed with United and \$12,375 was actually paid through March 1982.

Generally, agents could not provide us with data on the number of shipments moved under their own authority and their guaranteed pickup and delivery programs.

DISPUTE SETTLEMENT PROGRAMS FOR HANDLING CLAIMS

The Household Goods Transportation Act of 1980 provides minimum requirements for carriers to establish programs to settle disputed claims between shippers and carriers rather than using the court system. Claims would be submitted to an impartial arbitrator established under the program. Carriers were encouraged to establish such programs by requiring them to pay attorneys' fees to all successful shipper/claimants when a carrier had no program. To use the program, both parties must agree to arbitrate the dispute. However, carriers must submit their proposed programs to ICC for approval.

In March and April of 1981 the Movers' and Warehousemen's Association of America, Inc., and the American Movers Conference, national trade associations of the household goods moving industry, submitted applications to ICC for approval of two separate dispute settlement programs. Subsequently, ICC approved both programs with some modifications to each.

Under both programs, the American Arbitration Association will arbitrate claims involving losses and damages on household goods. The programs do not cover other types of claims, such as inconvenience claims. Shippers requesting arbitration under the program will not be charged a fee if the standard procedure of a "desk arbitration" is followed. Desk arbitrations are made on the basis of written documents submitted to the arbitrator by both parties. A fee of \$50 each will be charged the shipper and the carrier only if an oral hearing is necessary. Decisions by an arbitrator under these programs are binding on both parties and enforceable in any court having jurisdiction over the dispute.

All but one of the van lines and 7 out of 27 agent-carriers (with their own authority) offered dispute settlement programs, and they all used the American Movers Conference program. The only van line not offering a program was Wheaton. The President of Wheaton said that the program was unnecessary because very few claims ever resulted in court action--Wheaton had only three such claims in 1980 and two in 1981. Such court actions usually involve moves where the shipper's goods were substantially damaged and the goods were underinsured. He believes that shippers in these cases would elect court action, not arbitration.

Use of the programs

The extent that shippers used these programs could not be determined. Most of the van lines we visited had begun using their programs in February and March 1982. Our visits were made during the March-June 1982 time period and no one had used any of the programs.

As of November 4, 1982, the American Arbitration Association received only two cases for arbitration from all carriers using the American Movers Conference's program.

Some officials of the van lines we visited believe that the dispute settlement programs would not reduce court cases and, therefore, questioned their need. For example, the President of Allied Van Lines said that shippers will be reluctant to use arbitration because it is new and untested. He believes that shippers will favor the courts where claim settlement precedents had been established. In addition, a Mayflower official noted that a claim that ends up in court usually involves a significant dispute between the shipper and carrier and it is unlikely either party would agree to arbitrate. In addition, one van line official said that national accounts do not need such a program because they have enough leverage with van lines to negotiate settlement of claims.

In commenting on our report, North American stated that, since completion of our audit, they received 12 requests from shippers to use the program, but these claims were negotiated and resolved before resorting to arbitration.

FULL VALUE PROTECTION

With the new pricing and service flexibilities encouraged by the new acts, van lines are assuming greater liability for shipper's household goods at the shipper's option with a new type of protection called full value protection.

Under the full value protection program, shippers can now purchase protection against loss or irreparable damage to their household goods for actual replacement cost. Before this option became available, shippers could only purchase protection for a depreciated value. There are two options for depreciated value. A shipper can accept depreciated coverage at a minimum value (equal to \$1.25 per pound) or elect additional coverage by declaring some value above the minimum. In either case, the shipper is charged \$5 per \$1,000 of value. As another option, a shipper can also elect at no cost a "released value" in which the carrier will be liable for only 60 cents per pound.

Van line officials expressed the opinion that the full value protection programs have been good for the shipper primarily because of the more complete protection--replacement cost as well as depreciated value.

All of the van lines we visited offered the full value protection option. The cost of the option to the shipper varied from \$7 per \$1,000 valuation to \$8.50 per \$1,000. Two of the van lines offer shippers a reduction in the rate by providing options with various deductibles. For example, Mayflower offers an option to its "no deductible" full value protection. The shipper can select a \$300 deductible for the reduced rate of \$2.50 per \$1,000 valuation. The \$300 deductible applies only to damaged goods not lost items.

All the full value protection plans of the van lines we visited have minimum valuation requirements for each shipment. Generally, plans require between a \$3 to \$3.50 per pound minimum valuation.

Van lines act as self-insurers for their value protection programs with some van lines having an insurance coverage for losses. For example, Mayflower carries insurance coverage for any losses on one move over \$50,000. Mayflower officials indicated that the company may have one claim per year in excess of \$50,000 which usually involves such high-cost items as antiques or electronic equipment. Allied, United, and National carry insurance for per move losses of over \$150,000, \$100,000, and \$15,000, respectively.

Use of the programs

Information the van lines provided on their use of the full value protection coverage by national account and COD shippers varied as to time periods. The table below shows the total number of shipments and the percentage of shippers using the option by type of shipper.

Percentage of Shippers Using Full Value Protection

<u>Van line</u>	<u>Periods</u>	<u>Shippers</u>			<u>Total number of shipments</u>
		<u>COD</u>	<u>National accounts</u>	<u>Total</u>	
---(Percent)---					
Allied	4/81-12/81	(a)	(a)	19.5	129,713
Bekins	1/82-4/82	23.0	24.4	23.7	12,295
Mayflower	5/81-2/82	(a)	(a)	8.0	88,602
National	(a)	(a)	(a)	(a)	(a)
North American	1/82-5/82	34.3	28.7	(a)	(a)
United	6/81-4/82	13.6	9.6	11.4	94,041
Wheaton	4/81-2/82	1.7	1.4	1.5	18,082

(a) Data was not provided.

National, Mayflower, and Wheaton officials gave various reasons for the limited use of their programs, including (1) the program's high cost, (2) most commercial customers may have their own insurance, and (3) shippers may not be aware of the program.

The financial status (net profit or loss) of the full value protection program was difficult to determine. National and Allied provided us with no data. A North American official stated that the van line could not provide data on the number of claims and amounts paid for selected periods. The only information we received was the average income and cost per claim. Other van lines provided us with summary statistics. We did not verify any of the information. Collections of charges for full value protection are received at the time shipments are moved, but claims under the programs can occur months after the move. This requires estimates of potential claims or reserves set aside for this liability. In some cases, these reserves were combined with other valuation options. Therefore, we are providing only statistics on claims processed and paid by those van lines providing such data.

Claims and Payments Under Full
Value Protection

<u>Van line</u>	<u>Periods</u>	<u>Number of months</u>	<u>Shipments under option</u>	<u>Claims</u>	<u>Amount paid</u>
Bekins	1/82-4/82	04	2,914	1,973	\$1,078,778
United	6/81-4/82	10	10,688	2,993	1,326,834
Wheaton	4/81-2/82	11	273	87	35,758
Mayflower	5/81-2/82	10	7,095	1,400	427,336

Generally, measures to prevent loss or damage of household goods were not taken by the van lines as a direct result of the full value protection option. Most van lines indicated that reducing or preventing claims for damaged or lost goods is an on-going evolutionary process. United, in commenting on our report, said that its claim ratio went from one claim in every 3.8 shipments in 1979 to one claim in every 5.4 shipments in 1981. A United official said that improvement resulted from strict van operator qualification procedures, comprehensive internal training programs, close monitoring of van operator performance through a claim experience rating report, and a formal review process for van operators with high claims frequency.

EXTENT THAT ICC IS MONITORING AGENTS

Section 5 of the Household Goods Transportation Act of 1980 contains the following provisions in regard to household goods agents:

- Each household goods carrier shall be responsible for all acts of its agents related to services performed for the carrier.
- Each carrier shall use diligence and reasonable care in selecting and maintaining agents who are sufficiently knowledgeable, fit, willing, and able to provide adequate household goods transportation services.
- Whenever ICC believes from a complaint or investigation that a household goods agent has been involved in fraudulent practices or has been consistently unfit, unwilling, and unable to provide transportation services, ICC may issue a complaint against the agent.

On October 16, 1980, ICC issued a policy statement stating that it has always and will continue to hold household goods van lines operating under its jurisdiction responsible for the actions of their agents. The statement also said that ICC expected each van line to engage in self-regulation of its agents. It added that ICC has the responsibility of conducting field investigations of household goods agents either as part of a regular compliance monitoring program or because of complaints from shippers that request ICC's assistance.

The quality of service provided to shippers is very important to van lines. Consequently, all of the van lines we reviewed monitor the quality of service their agents perform. However, the extent of this monitoring varies among the van lines. For example, some van lines have sophisticated monitoring systems and monitor the quality of many services performed by agents while other van lines monitor only a few services agents performed. Also, some van lines prepare periodic reports covering the performance of all agents while other van lines do not. The latter van lines rely on individual agent files rather than overall reports.

For example, one van line completes a performance report on each agent every 4 weeks. The van line monitors the agent's performance in completing paperwork, estimating accuracy, packing, storage, hauling, and claims incidence. Standards are applied to an agent based on its revenue size. Reports are used to evaluate an agent's overall performance and serve as the basis to reward agents with vacation trips or other awards or to counsel agents that do not meet minimum standards. Although all of the van lines were unable to provide us with the exact number of agents released because of poor service, the information provided indicates that the number is small.

ICC in implementing its policy relies on the van lines to assure that their agents are providing adequate service. When we completed our review, ICC had not reviewed the van lines' systems or activities to assure that they are adequately monitoring their agents. In commenting on our report, ICC said that it planned to review the van lines' monitoring of their agents.

ICC headquarters and its regional offices do not have any current information, other than complaint data, relating to the quality of service provided by individual agents in order to identify unfit agents. An ICC headquarters official stated that ICC will use its complaint data to monitor agents. However, since shippers are instructed to contact the agent or van line first to get complaints resolved, many complaints never reach ICC. Thus, ICC would not be aware of all complaints filed against an individual agent.

As of December 1982 ICC had not identified any agents as unfit nor taken any action against an agent under authority granted in the Household Goods Transportation Act of 1980.

CONCLUSIONS

New programs have been created as a result of the recent regulatory reform legislation. The guaranteed pickup and delivery programs and the full value protection programs established by the various van lines provide shippers new service options not previously available. Some question exists about the potential use of the dispute settlement programs which are also available to shippers. Van line officials have expressed the

opinion that claims in dispute may still end up in court rather than using the new program.

The new reform legislation has given ICC increased statutory authority over agents. ICC is relying on the van lines to monitor the quality of service provided by their agents, but ICC has not reviewed the van lines' systems or activities to determine if they are adequately monitoring agent performance. While ICC has not taken steps to implement its new authority, it has developed a plan to review van lines' monitoring activities. We concur with ICC's plan to review the activities of van lines in identifying unfit agents and in improving agents' performance.

RECOMMENDATION TO THE CHAIRMAN,
INTERSTATE COMMERCE COMMISSION

We recommend that the Chairman, Interstate Commerce Commission, periodically evaluate the various van lines' systems or activities in monitoring the quality of the service their agents are providing to ensure that van lines are adequately monitoring their agents.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report, the ICC Chairman said that this recommendation does not appear to be warranted at this time. Specifically, he said that

"The ultimate objective of our oversight of the household goods transportation industry, in the area of consumer protection, is to assure that the service being provided adequately satisfies the needs of the public. Since 1979, when we received 24,609 consumer complaints against household goods movers, the number of complaints each year has declined dramatically. During the 1982 calendar year our staff received 5,272 complaints relating to the service of the industry."

* * * * *

"This fact, when coupled with our general knowledge of the industry's operations, does not lead to a conclusion that the Commission's limited resources should be devoted significantly to such a narrowly directed program. I shall, however, take steps to assure that in the implementation of the Commission's overall monitoring program now being prepared that this facet of each carrier's operations is considered."

Consumer protection was a major concern when the reform legislation was enacted, and we recognize that the number of complaints to ICC have dramatically reduced. However, the

decrease in the number of complaints is not caused solely by improvements in service to the consumer. As the ICC Chairman pointed out in his November 30, 1982, testimony before the Subcommittee on Surface Transportation, the House Committee on Public Works and Transportation, there are a number of factors, in addition to better quality of service, that are causing this reduction in complaints:

"The reduction in tonnage as a result of the declining economy since 1979 has made it easier for household goods goods carriers to meet service commitments.

Under the new regulations, which became effective February 1, 1982, moving companies are required to advise shippers of complaint handling procedures and to provide telephone numbers to be used in the event of a complaint or inquiry.

The Commission's OCP-100 publication, Your Rights and Responsibilities When You Move, [as revised subsequent to the new reform legislation] encourages shippers to contact their carrier first with any complaints, and to contact the Commission only if they fail to receive satisfaction from their carrier.

The Commission discontinued providing toll-free telephone service at the end of 1981."

We believe that ICC's decision--as stated in its comments--to consider this facet of the carrier's operations when performing its overall monitoring program seems an effective use of its limited resources. The plan has been developed but not implemented by ICC and does require a review of selected van lines' systems to monitor their agents' quality of service.

CHAPTER 5

ICC NEEDS TO IMPROVE ITS MONITORING OF THE EFFECTS OF REFORM LEGISLATION AND ITS REGULATIONS

The Motor Carrier and the Household Goods Transportation Acts of 1980 have affected many of the traditional operating practices of the household goods moving industry, particularly regarding

- new or expanded operating authority for carriers,
- new price and service options being offered to shippers,
and
- revised operating regulations for the industry.

ICC's revisions to the operating regulations for the industry were required by the Household Goods Transportation Act in order to minimize the regulations and paperwork burden of carriers while protecting the interests of individual shippers.

The Congress in enacting the reform legislation recognized that divergent views existed concerning the effects of these acts. The Congress indicated in the acts its desire to ensure a financially sound industry. The Congress also provided in the acts for oversight hearings to be held at least annually. The purpose of the requirement is to ensure periodic review of the acts' implementation and effect on carriers and shippers.

While the acts changed ICC's regulatory role in certain areas, ICC continues to have responsibility for overseeing the operations of the moving industry. In addition, the Congress looks to ICC for information on the impact of the acts and the new operating regulations governing the moving industry. In March 1983, ICC developed a monitoring plan to review the interstate moving industry. However, the monitoring plan would basically survey the industry's compliance with ICC's new operating regulations. The data developed under the plan will enable ICC to determine the carriers' compliance with the regulations but not the impact of the acts and regulations on the industry.

ICC NEEDS TO EXPAND ITS MONITORING PROGRAM TO EVALUATE THE IMPACT OF REFORM LEGISLATION

While the reform legislation changes ICC's regulatory role regarding the household goods moving industry, ICC still has responsibility to oversee the industry. Significant changes are occurring as a result of the new acts. As part of its oversight responsibilities, ICC should monitor the changes and be in a position to evaluate the acts' impact on the shippers and the carriers.

ICC has developed a monitoring plan to review the compliance of carriers with ICC's new operating regulations. Although this is a sound and needed initiative, the ICC plan does not provide for a review of the effects of the changes brought about by the two acts on the industry; thus, ICC is not able to effectively evaluate several important issues that need to be addressed, such as the effect on consumers and the moving industry, whether the acts reduced the industry's regulatory burden and paperwork, and how the relationship between the agents and their van lines has been effected.

Prior to development of the monitoring plan ICC did some limited monitoring of the changes that have taken place. The information that ICC has developed was in response to a congressional request for specific, limited types of data or was to prepare for congressional hearings. These efforts were primarily data-gathering efforts and not analytical in nature and, therefore, did not systematically or comprehensively enable it to evaluate and analyze the results of the acts. For the most part, only ICC headquarters had been involved with this effort. Officials of ICC's Boston and Chicago regional offices told us that ICC headquarters has not directed them to monitor the effects of the two acts and, as a result, the regional officials have not established a monitoring system to do so. However, ICC headquarters did request selected ICC regional offices to gather certain information needed to answer the specific congressional request made to ICC.

An internal report "Interim Assessment of the Interstate Motor Carrier Household Goods Transportation Industry--1982," (Sept. 1982) prepared by the Chief, Compliance Branch, Office of Compliance and Consumer Assistance, contains background information and discusses several of the new price and service options that household goods carriers are offering. Although the objective of the assessment was to evaluate the impact of the Household Goods Transportation Act of 1980 on the operations and financial position of the moving industry, the report cannot be considered a comprehensive assessment of what has taken place in the moving industry. For example, the report

- included financial and operating data on only the 10 largest van lines;
- was more descriptive in nature, containing many general comments, beliefs, and impressions rather than analytical with factually supported conclusions; and
- contained no discussion of the legal issues raised by the moving industry.

In one area--economic impact--ICC has reduced its ability to assess the financial condition of part of the industry by eliminating the requirements to submit several financial reports without providing for some other means of monitoring financial

changes. For example, Class III household goods carriers have not been required to file financial reports with ICC since 1979. The Class III carriers' reports previously filed were very short--only one page. The reports did show the carrier's profit or loss. Without some basic financial data on Class III carriers, ICC has no way to adequately assess the financial condition of these small carriers which represent about 93 percent of the total number of interstate household goods carriers. While ICC may not need financial and operating reports from every Class III carrier, such data could be obtained on a selective basis, such as with a questionnaire.

According to ICC, during the recent House and Senate oversight hearings on the Household Goods Transportation Act of 1980, the absence of financial and operating data of small carriers was discussed. During the hearing, the ICC Chairman agreed to cooperate with the Department of Transportation in a proposed study to develop such data on small carriers.

As for Class II household goods carriers, ICC no longer requires them to file quarterly financial reports; however, ICC does receive financial data on these carriers annually.

Also, ICC has decreased the number of household goods carriers filing performance data covering such areas as accuracy of estimates and timeliness of providing pickup and delivery service and settling claims. Currently, only carriers which annually handle 100 or more COD shipments must file carrier performance reports with ICC. Thus, ICC will not have any reports from small carriers relating to the quality of service they provide to shippers.

MONITORING THE EFFECTS OF ICC'S REGULATIONS

The Household Goods Transportation Act of 1980 required ICC to review and revise its regulations relating to the operating practices of interstate household goods carriers.

Operating regulations are applicable to the operations of each interstate motor carrier moving household goods. The primary purpose of the regulations is to protect the interest of the individual shipper. For example, one regulation requires that minimum weight or volume and charges applicable to a shipment must be indicated on the order for service.

The act specifically directed that the regulations and paperwork required of household goods carriers be minimized to the maximum extent feasible consistent with the protection of individual shippers. Also, the act requires ICC to establish performance standards for the carriers.

Many interstate household goods carriers were opposed to ICC's revised operating regulations and challenged the final regulations in the United States Court of Appeals. In the suit,

the moving industry alleged that the final regulations violated the act's mandate to reduce regulations and the paperwork burden on the moving industry and cited specific regulations of concern to the industry. In addition to ICC's submission of a brief, the Consumers Union of the United States, Inc., was the only consumers organization to submit a brief. The Consumers Union, intervening in support of ICC's regulations, is a consumer advocate organization--some of its members are household goods shippers. The regulations, as presented to the court, became effective in February 1982 without change.

ICC has developed a plan to monitor household goods carriers' compliance with its regulations.

Statutory requirements relating to the operating regulations

Section 6 of the Household Goods Transportation Act of 1980 states that:

- ICC shall review and revise all of its operating regulations pertaining to transportation of household goods.
- The regulations and paperwork required of household goods carriers shall be minimized to the maximum extent feasible consistent with the protection of individual shippers.
- ICC regulations protecting individual shippers shall include, where appropriate, reasonable performance standards for the transportation of household goods.

In the Senate report on the proposed Household Goods Transportation Act of 1980, the Senate Committee on Commerce, Science, and Transportation stated that it found that the paperwork imposed on household goods carriers is excessive. The carriers should be relatively free of specific requirements by ICC for paperwork and operational regulations. The committee added that it intended that ICC make a cost/benefit analysis before ICC decided to retain existing or impose new regulations.

ICC revises its household goods regulations

On October 27, 1980, ICC published its proposed household goods operating regulations in the Federal Register and granted the household goods moving industry and consumers 30 days (later extended to 45 days) to file comments with ICC.

ICC received over 100 statements from individuals and groups representing small and large carriers, major van lines, carriers associations, and consumer organizations concerning their comments on the proposed regulations. On March 11, 1981, ICC published its final operating regulations in the Federal

Register. The final regulations were scheduled to become effective on June 9, 1981, but were delayed by court action and finally became effective in February 1982.

ICC's Compliance Branch Chief, who was primarily responsible for revising the regulations, told us the revised regulations were based on

- ICC's actual knowledge of and experience with the industry over many years,
- review of the complaints that ICC received through its complaint system, and
- results of conferences ICC held in various cities from September 1979 to January 1980.

The chief told us that ICC did not make a cost/benefit analysis because of the difficulty in determining accurate cost due to the variety of firms in the industry and their inability to provide complete cost data.

During the year before the Household Goods Transportation Act of 1980 was enacted, ICC conducted conferences in five cities--Chicago, Los Angeles, New York, Tampa, and Washington, D.C., to solicit the views of consumers and the household goods moving industry on the manner and extent that transportation of household goods requires regulation and how the regulations might be improved.

Suits filed against the final operating regulations

On May 7, 1981, several major van lines, the American Movers Conference, and the Household Goods Carriers' Bureau filed suit in the United States Court of Appeals for the Seventh Circuit, alleging that the final operating regulations violated the Household Goods Transportation Act's mandate to reduce regulations and minimize the paperwork burden for the household goods moving industry.

The plaintiffs pointed out several specific regulations which they found objectionable and which they believed would increase the paperwork burden. Examples of regulations the plaintiffs objected to are:

1. Section 1056.7 "Reweighing of shipments" states that before the actual commencement of unloading of a shipment and after the shipper is informed of the billing weight and total charges, the shipper may request a reweigh of the shipment. The charges shall be based on the reweighed weight.

The plaintiffs expressed concern that this regulation allowed shippers to demand a reweigh solely because of momentary ill will, hostility, or sheer capriciousness on the part of the shipper at the moment when the driver has reached the destination and is ready to unload. This would require the driver to reweigh the shipment, using his time, and perhaps the unproductive time and expense of helpers hired to unload the shipment as well as the cost of fuel to drive to a scale and return to the shipper's residence. It could also result in the driver missing subsequent appointments with other shippers.

In its brief, the Consumers Union of the United States, Inc., indicated that the right to reweigh is reasonable because reweigh is an area in which shippers have a documented need for protection. That is, the household goods moving industry is the single most frequent subject of consumer complaints to ICC and that improper weighing is one of the more common complaints. The Consumers Union stated that the petitioners had constructed a "straw man" by complaining that the new rule would result in a practice of capricious requests for reweighs, noting that one petitioner, in its brief, admitted that industry's longstanding practice was to contact the shipper in advance by telephone (prior to actual arrival of the shipment) to inform the shipper of the billing weight and charges and to make arrangements to meet at a convenient locations for reweigh, if requested.

2. Section 1056.15 "Collection of freight charges on household goods shipments involving loss or destruction in transit" states that in the event a portion of a household goods shipment is lost or destroyed in transit, a carrier may not require a shipper to pay at the time of delivery that portion of the freight charges corresponding to the portion of the shipment which is lost or destroyed in transit.

According to the plaintiffs, this regulation requires the driver to determine if the goods are lost, damaged, or reparable; to estimate what portion of the shipment's weight was made up by the damaged or lost goods; and to act as a tariff clerk and recompute freight charges. This regulation also places the burden on the shipper and carrier to reach some agreement as to the weight to be allocated to the missing or damaged goods in order for the driver to collect freight charges on the remaining goods. It also poses the risk that the driver may refuse to unload because of lack of agreement, or that if already unloaded, the risk of not being able to collect any charges.

The Consumers Union noted that

"It is unreasonable that an injured party suffer, while the defaulting party that destroyed or lost the goods enjoys the unearned benefit of use of the injured party's money for up to ninety days from delivery."

3. Section 1056.13 "Complaint and inquiry handling" states that the carrier shall make a written record of all complaints and inquiries received from a shipper by any means of communication.

The plaintiffs were concerned because no distinction is made between complaints and inquiries and because it was not limited to complaints which harm the shipper. The plaintiffs pointed out that carriers receive a constant stream of inquiries, mostly by phone, with respect to every conceivable facet of their business. Often these inquiries have no relevance to the protection of individual shippers and recording them would be an unnecessary burden for carriers.

The Consumers Union stated that the regulation was reasonable "as it pertains only to inquiries or complaints from a shipper relating to a shipment." The Consumers Union further stated the ICC "wisely chose not to leave to an agent's judgement whether an inquiry is or is not a complaint."

Court declares that the operating regulations are valid

The United States Court of Appeals for the Seventh Circuit stayed the original June 9, 1981, effective date of the operating regulations. That stay was dissolved by that same court on December 9, 1981, at which time it declared that all of the operating regulations were valid. ICC made the operating regulations effective on February 1, 1982.

The court stated that all of the regulations under attack could be substantially justified by ICC as needed for the protection of shippers, based on historically demonstrated industry abuses and shipper complaints. The court also stated that the plaintiffs did not provide sufficient tangible evidence of increased paperwork resulting from the new regulations. The court stated that for it to invalidate ICC's regulations it would have had to find the new regulations arbitrary, capricious, an abuse of discretion, or otherwise contrary to law. The court determined that none of these conditions existed.

ICC's proposed plan to monitor the implementation of revised regulations

As stated previously, section 6 of the Household Goods Transportation Act of 1980 provides that the regulations and paperwork required of household goods carriers shall be minimized to the maximum extent feasible consistent with the protection of individual shippers.

In March 1983, ICC developed a plan to monitor the compliance by household goods carriers with ICC's new operating regulations. According to the plan, ICC will review carriers' compliance with those regulations to assure that shippers are provided reasonable and adequate service. However, the proposed plan does not provide for any analysis of the regulations' impact on the carriers' paperwork requirements.

Since the revised operating regulations became effective only shortly before we completed our audit work, we did not have an opportunity to identify any specific regulations that were either burdensome to the industry or causing consumer problems. However, the moving industry has expressed concern that certain regulations were potential problems and/or increased the industry's paperwork burden. We believe ICC should include in its monitoring plan a review of those problems noted by carriers and the impact of the new regulation on their paperwork burden.

PERFORMANCE STANDARDS COVERING HOUSEHOLD GOODS OPERATIONS

Section 6 of the Household Goods Transportation Act of 1980 provided that ICC regulations protecting individual shippers shall include, where appropriate, reasonable performance standards for the transportation of household goods.

On March 11, 1981, ICC issued proposed performance standards for household goods carriers relating to accuracy of estimates of moving charges, on-time pickup and delivery, and timely handling of shipper claims. ICC stated that the proposed performance standards were being issued as a means of encouraging an improved level of performance in the moving industry. ICC had determined that the areas covered by the performance standards were the ones in which individual consumers may suffer substantial harm in the absence of adequate performance by carriers. ICC also indicated that carriers handling less than 100 shipments a year will not be required to file annual performance reports. As of May 1983, ICC had not issued the final performance standards.

ICC's proposed performance standards are:

--Estimating--At least 90 percent of the nonbinding estimates made during a calendar year shall be for amounts not less than 90 percent of the total charges payable for transportation and services.

Regarding the estimating standard, ICC stated that performance data covering the years 1974 through 1979 filed by the largest household goods movers with ICC showed an average estimating accuracy level of about 76 percent. Since the carriers are now permitted to provide binding estimates and to use more flexible and innovative estimating practices, ICC concluded that the carriers should now be able and motivated to provide a higher level of accuracy with nonbinding estimates.

--Reasonable dispatch--Excluding shipments transported under guaranteed service performance tariff provisions, at least 95 percent of all shipments must be picked up and at least 90 percent of the shipments must be delivered on the dates or within the periods of time agreed to by the carrier and set forth in the order for service and/or bill of lading.

Regarding the reasonable dispatch standard, ICC stated that its review of the 1974 through 1979 performance data for the major moving companies showed that on-time pickups occurred on an average of 95 percent of the shipments and that on-time deliveries occurred on an average of 85 percent of the shipments. ICC added that in consideration of increased operational flexibility provided carriers by the new regulatory framework, the proposed standard reflects a level of performance which can be achieved by well-managed carriers.

--Claims handling--At least 95 percent of all claims for loss, damage, or delay of household goods shipments shall be acknowledged within 30 days of receipt. Also, carriers must pay, decline, or make a firm compromise settlement offer to a claimant with respect to 90 percent of such claims within 60 days and with respect to 95 percent of such claims within 120 days of receipt.

Concerning the claims handling standard, ICC stated that prompt acknowledgment of claims by carriers is the first step for handling consumer claims and, in the past, some carriers have not acted promptly in acknowledging claims. ICC also stated that its proposed performance standards of settlement and disposition of claims within 60 and 90 days, respectively, are based on ICC's experience with complaints and data in the carrier performance reports filed with ICC for the years 1976 through 1979. These reports showed that the Nation's largest movers were able to settle an average of 84 percent of the loss and damage claims within 60 days after filing. ICC added that it believed the proposed standard is within the means of well-managed carriers.

Industry associations challenge performance standards as unworkable

On April 30, 1981, the American Movers Conference and the National Moving and Storage Association filed comments with ICC challenging the appropriateness of the performance standards

ICC proposed for the household goods moving industry. The two associations questioned whether the standards were reasonable and attainable and questioned ICC's methodology in arriving at the standards.

Concerning the estimating standard, the American Movers Conference stated ICC had no data base on which to conclude that such a stringent standard is justifiable or can be met. The conference pointed out that a 1977 conference survey showed that shippers often made changes in their shipments up until the day of the pickup. The National Moving and Storage Association stated that a recent survey it conducted also showed that the main reasons for estimates being off were because shippers add more goods or they fail to show the carrier all of the goods to be shipped.

Regarding the reasonable dispatch standard, the American Movers Conference believed that the standard should apply only to shipments transported for individual shippers and should exclude delays that do not cause consumer harm--shipments (1) loaded late from a storage facility that are delivered on time, (2) delivered late into storage, and (3) delayed because the carrier is unable to locate another shipper with goods in the same truck. The National Moving and Storage Association believed that ICC should adopt a 90-percent on-time pickup and a 85-percent on-time delivery standard for 1981. The association stated that the major reasons for failure to meet the dates for pickups and deliveries involved factors outside of the carriers' control, such as mechanical problems, weather, and other shippers' actions.

In proposing the claims handling standard, the American Movers Conference believed that ICC failed to consider the cyclical nature of the industry. Due to the heavy influx of claims for a few months following the busy summer season, carriers would have to hire and train additional claims adjustors to comply with the proposed standard. To avoid retraining expenses, the conference stated that additional adjustors would have to be kept year round. To deter these increase costs, the conference suggested that ICC adjust its claims standards down by 10 percent in each category. The National Moving and Storage Association said that it supports ICC's claims standard, but ICC should take notice that other parties--shipper cooperation or repairmen services--influence the timeliness of claims settlement.

The National Moving and Storage Association also questioned the methodology ICC used to arrive at the estimating and reasonable dispatch standards. The association questioned ICC's use of 1974-79 data for standards applicable to the 1980's, noting that the structure of the industry, the state of the economy, and the new law and regulations argue against the reliability of that time period. The association also pointed out that ICC used data only for the largest van lines in developing the standards.

CONCLUSIONS

Recent regulatory reform legislation and ICC's revised operating regulations have affected the way the interstate moving industry operates. The intent of these statutory requirements and new regulations are to (1) protect the interests of individual shippers, (2) reduce the paperwork burden of the industry, and (3) promote a financially strong and competitive industry.

At a time when many new statutory requirements and new regulations are being imposed on the interstate moving industry, ICC needs to evaluate the effects of these changes on carriers and shippers. ICC developed a monitoring plan for reviewing the changes occurring in the interstate moving industry. The plan, however, surveys industry's compliance with its new operating regulations. ICC's monitoring plan does not provide (1) an analysis of the acts' effects on carriers and shippers and (2) the periodic collection of data needed for such an analysis. The financial and operational data now collected on Class I and Class II carriers and the financial/operational data to be collected in any Department of Transportation-ICC study of small carriers would be useful sources of data for any impact assessments of the acts.

ICC has the responsibility to oversee the impact of the acts on the industry. Also, the Congress, during annual oversight hearings on both acts, relies on ICC to provide information on the effects of the statutory changes.

RECOMMENDATION TO THE CHAIRMAN, INTERSTATE COMMERCE COMMISSION

To assure that recent regulatory reform legislation and ICC's revised operating regulations and proposed performance standards when finalized, are accomplishing their intended objectives we recommend that the Chairman, Interstate Commerce Commission, establish and implement a system to monitor the effects of the new legislation and regulations on the interstate household goods moving industry and shippers.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report ICC said that since the regulations did not become effective until February 1, 1982, the implementation of a substantial monitoring effort would have been unrealistic. Although implementation of the regulations was delayed, the reform legislation has been operative since 1980 and, some changes, such as eased entry, were administratively made by ICC before the acts were passed. In commenting on our report ICC said that a monitoring plan was being developed that would accomplish our recommended action. Based on our review of ICC's plan, it does not provide for the development of data to evaluate the impact of the acts on the

carriers and shippers. Although ICC may receive data that would be useful to assessing impact of the acts, such as financial and operational reports and the proposed small carriers study, other issues cannot be adequately addressed with current data, such as the acts' impact on the paperwork burden of industry or the acts' effect on shippers. We believe that, in order to accomplish our recommendation, ICC would have to expand its proposed efforts to include the development of additional data and its analysis to determine the impact of the acts and regulations on the carriers and the shippers.

Since the adoption of performance standards to be applied to the operations of the carriers is a pending proceeding, ICC said that it is constrained from discussing the proposal at this time. While we recognize ICC's position not to discuss a pending proceeding, the monitoring program it is going to initiate should include performance standards when finalized.

CHAPTER 6

INDICATIONS OF THE FINANCIAL CONDITION OF

CLASS I AND CLASS II HOUSEHOLD GOODS CARRIERS

One objective of the Household Goods Transportation Act is to improve the industry's financial condition. In an effort to determine the industry's condition, we analyzed recent financial data of the 15 largest van lines--which in 1981 accounted for 92 percent of the total revenues generated by Class I carriers--and data of 30 randomly selected Class II carriers which we projected to all Class II carriers. Our analysis showed that Class I carriers appear to be doing well financially but Class II carriers have experienced declining earnings from 1980 to 1981. However, we did not assess to what extent the financial results of the carriers were affected by regulatory reform. Also, it should be noted that too little time has passed to allow the financial effects of the two acts to have materialized fully.

Although the 15 largest van lines, as a group, have had net income increases of 29 percent in 1980 and 26.3 percent in 1981, they have experienced a decrease in net income of 25 percent during the first 6 months of 1982 compared with the same period in 1981. The data on Class II household goods carriers shows that these carriers were not doing as well financially as the 15 largest van lines in comparing 1979, 1980, and 1981 data. Financial data for 1982 was not available for the Class II carriers. Financial data also was not available for Class III carriers, agents, and owner-operators.

We also compared the financial and operating results of the 7 largest van lines with 89 other large general and specialized freight carriers. Our analysis showed that the 7 van lines were doing significantly better financially than the other 89 carriers. For example, the 7 van lines had net income increases of 33.1 percent in 1980 and 25.3 percent in 1981, whereas the other 89 carriers had net income decreases of 5.6 percent in 1980 and 41.8 percent in 1981.

The number of people moving has been declining in recent years due to several economic and sociological factors, including a depressed housing market. However, some carrier officials and their associations believe that the future of the industry is bright due to new operating flexibilities allowed by the Motor Carrier and Household Goods Transportation Acts of 1980, the pent-up demand for moving services which will materialize if high mortgage rates decline, and an estimated 30 percent increase during the 1980's in the size of the 25 to 44 age group that historically has been the most mobile.

RECENT FINANCIAL RESULTS OF HOUSEHOLD GOODS CARRIERS

Based on our review of carrier financial reports, it appears that the large van lines--Class I household goods carriers--have been doing better financially in the past 2 years than Class II household goods carriers who experienced declining earnings. Also, the 7 largest van lines appear to be doing significantly better financially than the largest 89 general and specialized freight motor carriers.

Van lines appear to be doing better financially than other large trucking companies

Using ICC's April 30, 1982, report covering the earnings and traffic volume of the 100 largest motor common carriers of property, we compared the results of 7 van lines--the largest van lines--listed in the report with 89 other carriers listed. We included only 96 carriers in our analysis because 2 of the 100 carriers did not submit their data to ICC in time to be included in the report and 2 United Parcel Service companies were excluded due to the specialized nature of their services. Our analysis showed that the 7 van lines appear to be doing significantly better financially than the other 89 carriers. However, it should be noted that many general and specialized freight carriers, including carriers that are not part of the 100 largest motor carriers, have been experiencing financial difficulty during recent years.

The table on page 54 presents a comparison of the percentage changes in operating revenues, net carrier operating income, net income, and revenue tons hauled during 1980 and 1981 for the 7 van lines and the other 89 carriers. Net carrier operating income is the difference between carrier operating revenues and carrier operating expenses. Net income is after taxes but before extraordinary items such as writeoff of the value of van lines' operating authority. Prior to the act operating authority may have had a value since entry was limited, but because the Congress relaxed requirements for entry into the industry, that authority may not now be of value.

<u>Years</u>	<u>Group</u>	<u>Percentage change from prior year</u>			
		<u>Operating</u> <u>revenues</u>	<u>Net carrier</u> <u>operating</u> <u>income</u>	<u>Net</u> <u>income</u>	<u>Revenue</u> <u>tons</u> <u>hailed</u>
1979 to 1980	7 van lines ^a	14.0	58.9	33.1	(4.2)
	89 other carriers	1.4	1.8	(5.6)	(12.5)
1980 to 1981	7 van lines ^a	9.7	(1.6)	25.3	5.3
	89 other carriers	6.5	(27.9)	(41.8)	(3.4)

^aData includes revenue from general freight operations which three van lines perform.

As the above table shows, the 7 van lines had net income increases of 33.1 percent in 1980 and 25.3 percent in 1981, whereas the other 89 carriers had net income decreases of 5.6 percent in 1980 and 41.8 percent in 1981. Also, the revenue tons hauled in 1981 for the van lines increased by 5.3 percent while it decreased by 3.4 percent for the other 89 carriers.

All seven van lines had net incomes during 1980 and 1981. However, 29 of the other 89 carriers had losses in 1980 and 35 had losses in 1981.

The percentage changes in net income over the previous year for the seven van lines is shown in the following table.

<u>Van line</u>	<u>Percentage increase</u> <u>or decrease in net</u> <u>income over previous year</u>	
	<u>1979-80</u>	<u>1980-81</u>
A	(31.9)	106.9
B	55.8	97.8
C	41.2	45.1
D	64.1	14.7
E	38.4	14.5
F	97.9	(4.5)
G	(54.0)	195.5

In 1981 all but one of the seven van lines experienced substantial gains in net income over 1980. The van line that experienced a 4.5-percent decline in net income in 1981 had previously experienced a 97.9-percent increase in net income during 1980.

ICC's report on the 100 largest motor common carriers of property covering the first two quarters of 1982 showed declines

in net income from the two quarters of 1981 for both the van lines and the general and specialized freight carriers. The following table presents our analysis of the percentage changes from the first two quarters of 1981 to the first two quarters of 1982 in operating revenues, net carrier operating income, net income, and revenue tons hauled for the 8 largest van lines (one van line was added to the report since it qualified as being one of the 100 largest motor common carriers of property) and 92 other carriers listed in the report.

<u>Group</u>	<u>Percentage change from first two quarters of 1981 to first two quarters of 1982</u>			
	<u>Operating revenues</u>	<u>Net carrier operating income</u>	<u>Net income</u>	<u>Revenue tons hauled</u>
8 van lines	(3.2)	(45.0)	(15.0)	1.4
92 other carriers ^a	(4.8)	(80.9)	(101.6)	(13.3)

^aBeginning in 1982, ICC excluded the two United Parcel Service companies from its report because the nature of their business is significantly different from the other motor carriers listed in the report. Also, all 100 carriers submitted data on time to be included in ICC's report.

The above table shows that both groups of carriers are doing poorly. On an individual basis, 5 of the 8 van lines had losses for the first quarter of 1982 and 59 of the other 92 carriers had losses during this period. For the second quarter of 1982, there was some improvement--only 2 van lines and 37 of the other carriers had losses.

Financial results of the largest 15 van lines

We also analyzed the financial results of the household goods operations of the 15 largest van lines covering 1979 through 1981. These van lines accounted for about 64.6 percent of the estimated \$2.5 billion of operating revenues generated by the industry during 1981.

The table on page 56 presents the overall changes in operating revenues, operating expenses, and net carrier operating income for the household goods operations--we did not include the nonhousehold goods operations of the van lines which carry on these operations in order to show separately how the household goods operations were doing financially--of the 15 largest van lines. Net income after taxes but before extraordinary items includes both the household goods operations and nonhousehold goods operations, as the financial reports filed with ICC do not separate these items.

<u>Years</u>	<u>Percentage change from prior year</u>			
	<u>Operating revenues</u>	<u>Operating expenses</u>	<u>Net carrier operating income</u>	<u>Net income</u>
1979 to 1980	13.5	12.8	50.3	29.0
1980 to 1981	8.8	8.6	17.7	26.3

As a group, the 15 van lines showed a 29-percent increase in net income after taxes but before extraordinary items from \$30 million in 1979 to \$37.9 million in 1980. The 15 van lines also had a 26.3-percent increase in net income in 1981 with a net income of \$48.9 million. If North American Van Lines--which generates about 40 percent of its total operating revenues from general freight operations--were excluded from this analysis, the net income for the other 14 carriers in this group increased by 19.8 percent in 1980 and 49 percent in 1981. During this period, the Consumer Price Index increased 13.5 percent in 1980 and 10.4 percent in 1981.

Not all 15 van lines had net incomes during 1979 through 1981. Two of the 15 van lines suffered losses for 2 of the 3 years and 1 van line had a loss for all 3 years. However, the remaining 12 van lines had net incomes for all 3 years.

We also compared the financial results of the 15 largest van lines for the first 6 months of 1982 with the same period in 1981. Our analysis showed that the carriers were experiencing significant declines in net income. During the first 6 months of 1982:

- Operating revenues decreased by 3.8 percent from \$716 million to \$689 million.

- Operating expenses decreased by 3 percent from \$706 million to \$685 million.

- Net carrier operating income decreased by 57.9 percent from \$9.5 million to \$4 million.

- Net income, which includes general freight operations, decreased by 25 percent from \$13.8 million to \$10.4 million. If North American Van Lines which has a significant amount of general freight operations were excluded, the net income for the other 14 carriers decreased by 128.7 percent from \$2,569,000 to a net loss of \$737,000.

It should be noted that the first 5 months of the year is not part of the busy season for the moving industry.

Class II household goods carriers are not doing as well financially as the large van lines

We took a random sample of 30 Class II household goods carriers--with operating revenues of between \$1 million and \$5 million--from the 134 Class II carriers that had submitted annual financial reports to ICC by August 1, 1982, for the purpose of reviewing their financial results during 1979, 1980, and 1981. Based on this sample, we were able to project estimated totals for all 134 carriers, which account for about 15.9 percent of the industry's total operating revenues in 1981. Our total figures have a 95-percent confidence level. Our analysis of this data showed that Class II carriers were not doing as well financially as the 15 largest van lines.

The following table presents the percentage increases or decreases in operating revenues, operating expenses, net carrier operating income, and net income for Class II household goods carriers.

<u>Years</u>	<u>Percentage change from prior year</u>			
	<u>Operating revenues</u>	<u>Operating expenses</u>	<u>Net carrier operating income</u>	<u>Net income</u>
1979 to 1980	8.1	8.6	(36.4)	3.2
1980 to 1981	7.6	9.3	(72.6)	(22.0)

As indicated by the above table, the estimated operating revenues for Class II carriers increased by 7.6 percent in 1981--from \$369 million to \$397 million. However, estimated operating expenses increased by 9.3 percent to \$412 million. Their net carrier operating income decreased by 36.4 percent in 1980 and 72.6 percent in 1981. Although there was a slight increase of 3.2 percent in net income for 1980, there was a significant decrease in net income of 22 percent for 1981.

A comparison of the financial results of the 15 largest van lines versus the Class II carriers shows that, as a group, the 15 largest van lines are doing better financially. The 15 largest van lines had an increase in net income of 29 percent in 1980 and 26.3 percent in 1981, whereas the Class II carriers had only a 3.2-percent increase in net income for 1980 and a 22-percent decrease for 1981.

LACK OF FINANCIAL DATA RELATING TO CLASS III CARRIERS, AGENTS, AND OWNER-OPERATORS

Although there is financial and operating data available relating to the large- and medium-size household goods carriers--Class I and Class II--such industrywide data is not available for Class III carriers, agents, and owner-operators. Due to lack of financial data, our report does not include separate sections relating to the financial condition of Class III carriers, agents, or owner-operators.

Currently, ICC requires household goods carriers with annual operating revenues of \$1 million or more--Class I and Class II carriers--to file certain financial and operational data with ICC. Smaller Class III carriers do not file this data with ICC, and data on these carriers is not available elsewhere on an industrywide basis. ICC does not collect financial and operational data from household goods agents unless the agent has its own ICC operating authority and has annual operating revenues of \$1 million or more. ICC eliminated the requirement for such reports because the ICC staff was not using, and had no plans to use, the data. Under its data collection policy, ICC collects data only if used regularly and often.

According to ICC, during the recent House and Senate oversight hearings on the Household Goods Transportation Act of 1980, the absence of financial and operating data with respect to small carriers was discussed. At that time representatives of the Department of Transportation indicated their interest in obtaining such data using a random sample questionnaire approach. ICC has assured the Chairman of both the House and Senate oversight committees that ICC will cooperate in every way possible if such a study is undertaken by the Department of Transportation.

During our review we attempted to obtain financial and operational data relating to agents by visiting 34 agents within ICC's Chicago and Boston Regional Offices jurisdiction. We were unable to develop financial information on these agents because several agents refused to provide us financial reports. We also attempted to obtain financial and operational data relating to agents by sending a questionnaire to 700 agents of the five largest and two other van lines. However, the questionnaire response rate was very poor--only about 12 percent of the questionnaires were returned.

Also, industrywide financial data relating to owner-operators is not available at ICC or elsewhere. Officials of several van lines told us that they collect data only on the revenue earned by owner-operators while hauling for the van lines; however, the van lines collect no information relating to the expenses incurred by the owner-operators. The president of one van line told us that owner-operator data is the least available and least dependable data throughout the moving industry.

United Van Lines, in commenting on our report, believes that a study of smaller agents and owner-operators would show a greater decline in earnings than Class I and Class II carriers, partially attributable to the economy and the uncertainty of deregulation.

REASONS FOR REDUCTION IN NUMBER OF PEOPLE MOVING

The number of people moving has been declining in recent years due to several economic and sociological factors, including a depressed housing market. As a result, many household goods carriers have begun to diversify their operations into nonhousehold goods areas.

Depressed housing conditions

The moving industry is affected by the economic condition of the housing industry and mortgage interest rates. When the housing industry is in a depressed condition, generally the moving industry is also in a depressed condition.

Calendar year 1981 was the worst housing production year since 1946, and, according to a National Association of Home Builders' report to the President, 1982 might be even worse. The following table shows the number of new housing units started for 1978 through 1981.

<u>Years</u>	<u>New housing units started</u>
1978	2,036,100
1979	1,760,000
1980	1,312,600
1981	1,100,300

As the above table shows, the number of new housing units started has been declining steadily since 1978. From 1978 to 1981 there has been a 46-percent decline in the number of new housing units started. Also, calendar year 1981 was the worst year for new home sales since the Census Bureau began collecting such statistics in 1963. In 1981 only 436,000 new single-family homes were sold compared with 545,000 in 1980 and more than 800,000 in each of 1977 and 1978.

High mortgage rates has been one of the main reasons for the recent housing slump. In early 1982 conventional mortgage interest rates averaged about 17 percent. Such high mortgage rates price the majority of potential home buyers out of the real estate market. Many experts believe that home sales will remain at depressed levels until mortgage rates drop to the 12-percent range.

Factors responsible for reduction in moves

The number of interstate moves has been decreasing in recent years due to several economic and sociological factors such as a desire of people to remain in their present locations, two-career families where both husband and wife are employed, and the cost involved in moving.

During our review we attempted to determine whether the total number of interstate household goods shipments was increasing or decreasing from 1979 to 1981. We found that such data was unavailable anywhere for the entire moving industry. As an alternative, we reviewed the annual reports of the 15 largest van lines filed with ICC to ascertain the total number of shipments handled by these van lines; however, data relating to number of shipments for all 3 years was available for only 13 of the van lines.

The following table shows the number of household goods shipments, by proviso, handled by the 13 large van lines. Proviso 1 shipments are shipments of used furniture and other household items from one home to another and include COD, national account, and Government shipments. Proviso 2 shipments represent shipments of office furniture and equipment of businesses and proviso 3 represents shipments involving commodities that are fragile or of high value that require specialized handling of the type provided by household goods carriers.

<u>Years</u>	<u>Number of shipments</u>		
	<u>Proviso 1</u>	<u>Provisos 2 and 3</u>	<u>Total</u>
1979	962,119	331,532	1,293,651
1980	899,232	349,921	1,249,153
1981	857,091	401,740	1,258,831

As the above table shows, the number of proviso 1 shipments handled by the 13 large van lines has been decreasing since 1979. There was a 6.5-percent decrease in the number of proviso 1 shipments during 1980 and a 4.7-percent decrease in 1981. On an individual carrier basis, 11 of the 13 carriers had decreases in the number of proviso 1 shipments during 1980 and 9 carriers had decreases in 1981. Seven carriers had decreases in both 1980 and 1981. The above table also shows that the number of proviso 2 and 3 shipments has been increasing since 1979. There was a 5.5-percent increase in the number of such shipments in 1980 and a 14.8-percent increase in 1981.

The following table shows the revenues earned, by proviso, for the 13 large carriers during 1979 to 1981.

<u>Years</u>	<u>Revenues earned</u>		
	<u>Proviso 1</u>	<u>Provisos 2 and 3</u>	<u>Total</u>
----- (000 omitted) -----			
1979	\$ 999,689	\$196,831	\$1,196,520
1980	1,137,332	238,713	1,376,045
1981	1,210,644	266,746	1,477,390

Although the number of proviso 1 shipments decreased in 1980 and 1981, the table on page 60 shows that the revenues earned by the 13 carriers in handling proviso 1 shipments increased in 1980 and 1981. The increase amounted to 13.8 percent in 1980 and 6.4 percent in 1981. Proviso 2 and 3 shipment revenues increased at a higher rate--21.3 percent in 1980 and 11.7 percent in 1981.

There is a growing sentiment among many people to remain at their present locations. They have established roots in the community and do not wish to relocate. Others want to stay where they are because of the geographical location, the climate, or do not want to risk searching for a new job in another location due to the lack of job opportunities under current economic conditions. The growth in the number of two career families where both husband and wife are employed also tends to keep families from relocating.

As for corporations relocating their employees, the cost involved with moving such employees has grown sharply in recent years and many corporations are re-evaluating their policies regarding employee transfers. According to a study done by the Employee Relocation Council, an organization of companies concerned with the transfer of employees, the average total cost of relocating a homeowner in 1981 reached \$26,432, a 27-percent increase over 1980 costs. The council stated that this increase in relocation costs reflects the corporation's attempts to ease the financial strain on the transferred employee caused by current real estate and mortgage markets.

Household goods carriers diversifying operations

By reducing the requirements for obtaining any type of interstate operating authority, the Motor Carrier Act has permitted household goods carriers to more readily obtain operating authority for transporting other products, such as general freight. Prior to the act, ICC took some administrative actions which reduced entry barriers. Most of the van lines and a few of the agents we visited have diversified their carrier operations into several nonhousehold goods areas. For example, the van lines and agents we visited have expanded their operations into the general freight area and are hauling such things as new furniture and fixtures, used automobiles, and toys, as well as storing nonhousehold goods items. For some carriers, this diversification has been going on for several years, and for other carriers, diversification started in 1980 or 1981.

To determine the extent that household goods carriers were diversifying their operations into nonhousehold goods operations (general freight), we reviewed the financial reports submitted to ICC by the 15 largest van lines and 30 randomly selected Class II household goods carriers covering 1979, 1980, and 1981. None of the 30 Class II carriers reported any general freight revenues or expenses to ICC during these 3 years.

Our analysis of the 15 largest van lines showed that the number of these van lines hauling general freight has increased from 3 in 1979 to 4 in 1980 and 6 in 1981. However, as shown in the following table, the percentage of the total operating revenues of these carriers that is attributable to hauling general freight is very small if North American Van Lines' operations are excluded.

<u>Years</u>	<u>North American Van Lines</u>			<u>Other van lines^a</u>		
	<u>Total operating revenues</u>	<u>General freight revenues</u>	<u>Percentage general freight</u>	<u>Total operating revenues</u>	<u>General freight revenues</u>	<u>Percentage general freight</u>
	--(000 omitted)---			--(000 omitted)--		
1979	\$375,596	\$155,090	41.3	\$286,014	\$ 8,907	3.1
1980	435,831	176,863	40.6	396,546	12,315	3.1
1981	495,297	197,775	39.9	704,407	17,109	2.4

^aFigures include only those of the largest 15 van lines hauling general freight in each year: three in 1979, four in 1980, and six in 1981.

The above table shows that a large part of North American Van Lines' total operating revenues is generated by hauling general freight. During 1981 about 39.9 percent of its total operating revenues was attributable to hauling general freight. On the other hand, the other five van lines had general freight revenues which averaged only 2.4 percent of their total operating revenues during 1981.

Considering general freight revenues alone, the van lines' general freight revenues increased by 92.1 percent from \$8,907,000 in 1979 to \$17,109,000 in 1981, while the general freight revenues of North American Van Lines increased by 27.5 percent during this period.

Reasons for expansion into nonhousehold goods areas vary. For example, one van line we visited expanded its operations to include such things as hauling general freight internationally because of the deteriorating profitability of hauling household goods. Another van line expanded its operations to include such things as new furniture and fixtures and used automobiles because the household goods business is sporadic and unbalanced.

Besides diversifying into nonhousehold goods areas, carriers and agents are expanding operations into Provisos 2 and 3 household goods in order to increase business. (See p. 60.)

Future of the moving industry

In spite of some concern over the present financial condition of the moving industry, some industry representatives believe that the future of the industry is bright due to new

operating flexibilities, pent-up demand for moving services due to high mortgage rates in recent years, and increase in the age group that historically has been the most mobile.

For example, according to the President of the American Movers Conference, the 1980's have good growth potential for the moving industry because (1) the most mobile age group, 25 to 44, will increase by nearly 30 percent in this decade, (2) national accounts will likely give their people greater moving allowances, (3) military moves will increase as defense needs are met, and (4) there is a pent-up demand for housing upgrades and relocations. He also sees a great opportunity in the 1980's for innovative marketing and new, creative programs by movers.

CONCLUSIONS

Based on our analysis of financial and operating data, indications are that Class I household goods carriers appear to be doing well financially while Class II carriers have experienced declining earnings in the past few years. However, during the first half of 1982, it appears that Class I carriers are doing worse than in the three previous years.

Interstate Commerce Commission
Washington, D.C. 20423

OFFICE OF THE CHAIRMAN

January 25, 1983

Mr. J. Dexter Peach
Director
Resources, Community, and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

I appreciate your forwarding to our staff a copy of the G.A.O. report entitled "Status of Regulatory Reform of the Household Goods Industry" for our review and comments.

The principal conclusion of the GAO study is that the Commission has not been effectively monitoring the impact of recent changes in the law on van lines and shippers. More particularly, the criticism involves monitoring of the impact on the industry and the way it now operates as a result of the Motor Carrier and Household Goods Transportation Acts of 1980. Considering that extensive revised regulations adopted under Ex Parte No. MC-19 (Sub-No. 36), Practices of Motor Common Carriers of Household Goods (Revision of Operational Regulations), did not become effective until February 1, 1982, it appears unrealistic to believe that a substantial monitoring effort would have been implemented in 1982.

At this time the Commission's Office of Compliance and Consumer Assistance is preparing a specific program to implement such monitoring. It is anticipated the program will be operative no later than March 1, 1983 and will address in most respects the needs which the proposed report describes.

The recommendation that the Commission specifically audit the programs being employed by the carriers to monitor the operations of their agents does not appear warranted at this time. The ultimate objective of our oversight of the household goods transportation industry, in the area of consumer protection, is to assure that the service being provided adequately satisfies the needs of the public. Since 1979, when we received 24,609 consumer complaints against household goods movers, the number of complaints each year has declined dramatically. During the 1982 calendar year our staff received 5272 complaints relating to the service of the industry. This

amounts to a 79 percent reduction over the four-year period. This fact, when coupled with our general knowledge of the industry's operations, does not lead to a conclusion that the Commission's limited resources should be devoted significantly to such a narrowly directed program. I shall, however, take steps to assure that in the implementation of the Commission's overall monitoring program now being prepared that this facet of each carrier's operations is considered.

The adoption of performance standards to be applied to the operations of the carriers is now pending under docket Ex Parte No. MC-19 (Sub-No. 36A), Practices of Motor Common Carriers of Household Goods, (Performance Standards). As this is a pending proceeding I am constrained from discussing the proposal at this time beyond advising that a final decision will be reached in the near future.

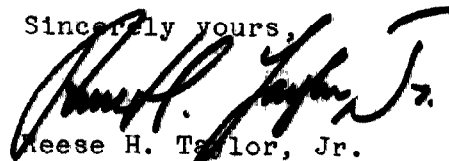
It is further noted that the proposed report critically discusses the absence of a requirement that the small carriers, those with revenues of less than \$1,000,000 a year, file reports of operating revenues and expenses with this Commission. I believe that the criticism is inappropriate. The Commission eliminated the requirement for such reports because the Commission staff was not using, and had no plans to use, the data. Under our data collection policy, we collect data only if we will use it regularly and often. GAO endorsed this policy by quoting from it on page 27 of its March 31, 1981, report entitled, The Trucking Industry's Federal Paperwork Burden Should Be Reduced. OMB Circular No. A-40 also states that agencies may not collect data which they do not use. In the Commission's letter commenting on the draft of that March 1981 GAO report, we clearly stated that the Commission intended to begin proceedings to eliminate the Class III carrier annual reports and the Class II carrier quarterly reports. GAO did not, in its rebuttal on page 53 of the final report, express any reservations about this proposal.

[GAO COMMENT: It was not our intention to be critical of ICC for not having data on all small carriers (class III) but only to point out that data was not available. On page 42 we said that ICC could collect data for monitoring purposes from small carriers on a selective basis using a questionnaire. On page 58 we included ICC's statements that it no longer collects data on small carriers.]

During the recent House and Senate oversight hearings on the Household Goods Transportation Act of 1980, the absence of financial and operating data with respect to small carriers was discussed. At that time representatives of the Department of Transportation indicated their interest in obtaining such data using a random sample questionnaire approach. I have assured the Chairman of both the House and Senate oversight committees that the Commission will cooperate in every way possible if such a study is undertaken by D.O.T.

If further comment or information is desired, please do not
hesitate to advise.

Sincerely yours,



Reese H. Taylor, Jr.
Chairman

LEGAL ISSUES POSED BY HOUSEHOLD GOODS CARRIERS
TO THE INTERSTATE COMMERCE COMMISSION

As stated previously, the Motor Carrier and Household Goods Transportation Acts of 1980 and ICC's revised operating regulations have impacted on the way the interstate moving industry operates. This appendix discusses the major legal issues that various household goods carriers and their associations posed to ICC as a result of the changes that have occurred since 1980 and is presented to show the problems household goods carriers are experiencing. They asked ICC to rule on the legality of

- the various rate discount programs carriers are offering to shippers,
- contract rates for national account shippers which are lower than rates charged to COD shippers for similar service, and
- van line changes in their pooling policies relating to carrier-agents.

The carriers and associations also asked ICC to establish guidelines on volume discounts that carriers give to relocation companies.

The above issues deal primarily with the manner in which ICC has been implementing certain policies contained in the acts. Household goods carriers and their associations are concerned that ICC's recent policies will result in discriminatory, predatory, and economically destructive practices.

We discussed certain aspects of these cases in chapter 3 concerning industry objections to new pricing techniques.

ICC REQUESTED TO RULE ON LEGALITY
OF DISCOUNT RATES

On January 29, 1982, the Movers' and Warehousemen's Association of America--an association of household goods carriers whose members are predominately small carriers--petitioned ICC to determine the legality of the various discount plans (volume discounts, senior citizen reductions, prepayment discounts, lotteries, and similar rebate programs) offered by household goods carriers.

In its petition the association pointed out that it is national transportation policy to regulate common carriers so as to encourage sound economic conditions among carriers and to encourage reasonable rates for transportation without unreasonable discrimination or unfair or destructive competitive practices. The association argued that the discount rate programs

offered by household goods carriers not only violate this policy, but violate the statutory mandate that all motor common carrier rates must be reasonable.

The association claimed that volume discounts and other forms of discounts bear no relationship to carrier cost savings. The association concluded that discount programs not based on cost savings were not only unreasonable but also discriminatory. The association asserted that it is self-evident that volume discount rates (1) discriminate against the individual or small commercial shipper that cannot qualify for volume discounts in favor of the large commercial shipper that is able to tender enough traffic to qualify for discounts and (2) coerce carriers into engaging in a suicidal rate war. It concluded that these discount rates would appear, therefore, to violate section 10741 of the Interstate Commerce Act which prohibits a carrier from establishing rates which subject a person, place, port, or type of traffic to unreasonable discrimination.

In addition, the association argued that to the extent that discount rates are below marginal or even average cost levels, they are predatory--designed to drive rival carriers out of a market--and destructive of competition.

The association requested ICC to address itself to the reasonableness of discount rates, their discriminatory nature, and their predatory and destructive affect on competition within the household goods moving industry. Specifically, the association added that ICC must determine what cost-based standards are to be applied in assessing the reasonableness of these rates or whether they are in fact predatory and constitute destructive competitive practices.

As of September 1982, ICC had not ruled on this case. However, during an October 5, 1982, conference, ICC's Chairman announced that ICC was going to solicit public comments relating to the pricing practices of motor carriers of property since passage of the Motor Carrier Act of 1980. The Chairman stated that ICC would issue a policy statement on this matter after reviewing the comments submitted to ICC.

ICC denied a similar petition on May 19, 1982. That petition, filed by 15 general freight motor carriers on November 2, 1981, requested ICC to establish standards governing volume and aggregate loads (combining shipments into one load) discount rates offered by general freight motor carriers. The petitioners argued that reduced rates are unreasonable if they are not related to cost savings, discriminate among shippers, or are below marginal or average variable costs.

In denying the November 1981 petition, ICC stated that it did not wish to interfere with market-oriented adjustments to the pressures of the current recession. It believed that the

requested proceeding would likely do more to stifle legitimate competition and retard efficiency than to eliminate predation or unreasonable discrimination. ICC pointed out that reasonableness of rates judged by cost, a major concern in the past, may not always be in accord with the pricing schemes the Congress enacted in 1980. ICC also noted that the zone of ratemaking freedom provided by the Motor Carrier Act of 1980 allows carriers to discount rates as much as 30 percent or more without fear of ICC suspension or investigation.

In addition, ICC said it is unlikely that carriers are using discounts to drive others out of business. For such a strategy to succeed, sufficient entry barriers must be present to prevent competitors from reentering the market once the predator attempts to raise its prices to monopolistic levels. However, as regulatory barriers are reduced, predation by motor carriers becomes uneconomic, since entry costs are so low a predator could never long enjoy its monopoly price. ICC further pointed out that trucking companies could protest individual discount rates that appear to be predatory or discriminatory on a case-by-case basis.

ICC ASKED TO ESTABLISH GUIDELINES ON
VOLUME DISCOUNTS TO RELOCATION COMPANIES

On December 15, 1981, the Household Goods Carriers' Bureau petitioned ICC to terminate controversies and remove uncertainties about the application of volume discount rates for household goods shipments tendered by relocation companies--firms that assist corporations, businesses, and other organizations in moving employees. The bureau included a list of 21 questions it had relating to this matter and requested ICC to respond to the questions.

The bureau pointed out that in order to be eligible for a volume rate discount, one must be a "shipper" as defined in the particular tariff provision. For household goods shipments tendered by relocation companies, the relocation firm is shown as the shipper on all shipping documents. Also, the shipping documents usually include a provision that the relocation company will be billed for all charges.

The bureau also pointed out that although volume discounts were designed for national accounts which are large volume shippers, carriers have given relocation companies the benefits of these discounts under a variety of circumstances. The bureau and its members are concerned with whether, and under what circumstances, it is lawful for carriers to grant volume discounts to relocation companies. If it is lawful, what obligation does the carriers have to ensure that the owner of the household goods or his or her other employer (the ultimate payer of the transportation charges) is assessed the proper tariff charges.

As of September 1982 ICC had not ruled on this matter. However, ICC's Office of Proceedings' position is that relocation companies can obtain volume discount rates if they satisfy the conditions specified in the tariff. Concerning the question of who receives the benefits from a discount, the Office believes that this question should be decided between the shipper (relocation company) and the person being moved in their contractual arrangement. An official in the office stated that ICC does not intend to interfere with such arrangements; however, ICC had not reached a formal decision on this matter.

LEGALITY OF LOWER CONTRACT RATES
FOR NATIONAL ACCOUNTS

On January 6, 1982, the Household Goods Carriers' Bureau petitioned ICC to determine the legality of contract rates for national account shippers that pay the moving expenses for their employees. Subsequently, United Van Lines and American Movers Conference also requested such a proceeding. Under common carriage, a carrier holds itself out to provide transportation to the general public. Whereas under contract carriage, a carrier enters into a contract with a specific shipper to provide transportation for the exclusive use and needs of the shipper.

The specific question the Household Goods Carrier's Bureau asked ICC to respond to is: Does a common carrier of household goods engage in rate or service preference or other discriminatory practices barred by section 10704 of the Interstate Commerce Act when it enters into a contract with a national account shipper for the transportation of household goods at rates below those charged to COD shippers for the same transportation?

The bureau pointed out that national account shipments represent a substantial part of the business of household goods carriers--about 40 percent of the total shipments, according to a recent bureau study of 1980 shipments.

The bureau also pointed out that all household goods shipments require basically the same service and degree of care regardless of who pays the freight bill. In fact, national account shipments often move in the same moving van with COD shipments. In view of this, the bureau found it extremely difficult to reconcile the statutory definition of contract carriage contain in section 10102(13) of the Interstate Commerce Act with the service performed by household goods carriers. Carriers that obtained contract carriage authority do not intend to assign vehicles for a continuing period of time for the exclusive use of a national account shipper. Also, the service required by the national account shipper is no more distinct than the service required by COD shippers.

The bureau noted that it is becoming a prevalent practice among household goods carriers to enter into contracts with national account shippers at rates and charges which are stated percentages below the rates and charges they offer to COD shippers. For example, a carrier might offer a national account shipper a 20-percent reduction of line-haul rates and a 10-percent reduction of accessorial charges from the rates and charges that apply to COD shippers. This appears to discriminate against COD shippers that are unable to command a contractual arrangement with carriers because of the sporadic nature of COD shippers' transportation requirements. The bureau added that it is quite likely that COD shippers would be subsidizing the household goods shipments performed for national accounts under contract carriage.

On April 22, 1982, United Van Lines also requested ICC to determine the legality of contract rates and posed basically the same question to ICC as the bureau did. It pointed out that carrier costs of executing and implementing negotiated contracts is considerable and that legal fees and other associated costs must be translated into higher line-haul rates and accessorial charges which apply to all shippers. Therefore, those who are not benefiting from contract carrier rates are subsidizing the administrative costs of contracts for selected customers.

United Van Lines also stated that it was concerned that the low contract rates would result in a decrease in the total capacity of the industry because contracting firms would merely maintain, not increase, their fleet size while carriers not involved in contract carriage would reduce their fleets.

On May 19, 1982, the American Movers Conference urged ICC to grant the Household Goods Carriers' Bureau's request for a decision relating to the legality of contract carriage. The conference noted that the apparent trend toward contract arrangements for national account shippers is gaining momentum at a rate that will surely see the eventual transportation of all such traffic in contract carriage. The conference agreed with United Van Lines' contention that contract carriage will seriously endanger the financial structure of the industry and the "industry's ability to provide reasonably adequate service to consumers while at the same time forcing them to assume the economic burden of the losses incurred through contract carriage * * *."

The Associate Director, Office of Proceedings, told us that as of September 1982, ICC has not taken final action on the requests. However, as stated earlier, ICC is planning to issue a policy statement relating to the pricing practices of motor carriers of property which will cover contract carriage rates.

VAN LINES CHANGE POOLING POLICIES
RELATING TO CARRIER-AGENTS

Atlas Van Lines and North American Van Lines have taken steps to terminate pooling agreements--the division of traffic, services, or earnings--with agents that possess their own ICC operating authority (carrier-agents) unless the agents agree to keep their interstate operations totally separate from the van lines' operations. Agents that have their own interstate operating authority have, in the past, often used the same facilities for the van lines' operations and their own operations and have used the van line's name on the trucks, uniforms, and buildings used for the agent's own operations. A group of carrier-agents from the two van lines requested ICC to determine whether the recent changes in pooling agreements are anticompetitive and, therefore, contrary to the Motor Carrier Act of 1980.

Legal authority for pooling agreements

Section 11342 of the Interstate Commerce Act provides that a common motor carrier providing transportation subject to ICC's jurisdiction may not agree or combine with another of those carriers to pool or divide traffic, services, or earnings without ICC's approval. It requires ICC to review a proposed pooling agreement to determine whether it is of major transportation importance and whether there is substantial likelihood that the agreement will unduly restrain competition. If ICC determines that neither of these two factors exist, it must approve the agreement without a hearing. If either of the two factors does exist, ICC must hold a hearing concerning whether the agreement will be in the interest of better service to the public or of economy in operation and whether the agreement will unduly restrain competition. ICC must suspend operation of the agreement pending such hearing and its final decision.

Section 11342 also provides that an application for ICC approval of a pooling agreement between a common carrier of household goods and its agents shall be presumed to be in the interest of better service to the public and of economy in operation and not to restrain competition unduly if the practices proposed under the agreement are the same or similar to practices carried out under such agreements approved by ICC previously.

Atlas Van Lines terminates pooling
agreement with its carrier-agents

On January 8, 1982, Atlas Van Lines submitted an application to ICC for approval of a new pooling agreement which Atlas and its carrier-agents agreed to. The application contained several modifications to the existing pooling agreement between Atlas and its agents, including:

--All household goods traffic handled by the carrier-agent under its own interstate authority will be transported on the carrier-agent's separate shipping documents and the name of Atlas will not appear thereon.

--Atlas agency contracts are exclusive--this provision was not defined in the January 1982 agreement but later Atlas said it will only pool shipments with agents that did not have their own ICC interstate authority, which appears to be inconsistent with the first modification above.

The application also stated that all Atlas agents have a free and unrestricted right to obtain or extend their ICC operating authority, and the agency contract will not be terminated because of the exercise of this right.

On February 22, 1982, ICC decided to approve Atlas' new pooling agreement. However, on March 1, 1982, Atlas' attorney took steps to unilaterally change the agreement by informing ICC that Atlas could not enter into a pooling agreement with its carrier-agents because of the following reasons:

- The risk of violating antitrust laws (discussion of rates with carrier-agents).
- Possible deception of the shipping public by diverting traffic from carrier-agents to Atlas without prior knowledge of the shipper.
- The use of Atlas' logos on vehicles owned by the carrier-agents which suggest to the shipping public that Atlas is responsible when, in fact, the carrier-agent does not register the shipment with Atlas and transports the shipment on its (carrier-agent's) own vehicles.
- Possible commingling in one vehicle of shipments handled under the shipping documents of Atlas and the carrier-agent.
- The expanded liability of Atlas for the actions of its agents under the Household Goods Transportation Act of 1980.
- The confusion occasioned by the carrier-agent in quoting two rates (Atlas' and the carrier-agent's) to customers.

Atlas' attorney advised ICC that Atlas' carrier-agents could exercise any of the following options:

- Terminate its agency with Atlas and affiliate with another carrier or operate independently.
- Surrender its certificate to ICC and continue as an agent with Atlas or any other carrier.

- Request ICC to authorize the carrier-agent to hold its own operating authority for a reasonable period of time without conducting operations.
- Transfer its certificate to a related, affiliated, or subsidiary corporation which will continue as an independent carrier, while the prior carrier-agent continues as a noncarrier agent of Atlas.

On March 12, 1982, ICC informed Atlas' attorney that if all of the above options are presented to the carrier-agents, it would appear that such an arrangement would not be unlawful. Atlas set July 15, 1982, as the effective date for the new agency relationship, but as of September 1982, the new arrangement had not been implemented.

North American Van Lines' proposal
to create an exclusive agency system

On January 26, 1982, North American Van Lines submitted its proposal to create an exclusive agency system--agents would not be permitted to have their own ICC interstate authority--to ICC. North American sought guidance and understanding as to what ICC's jurisdiction or other procedural requirements, if any, might be to implement its proposal.

In short, North American proposed to create a totally exclusive agency system, that is, to contract only with agents that do not represent any other van line and, in addition, do not hold competing interstate household goods authority in their own name. As for existing carrier-agents--those that now have their own interstate operating authority--North American is planning to direct them to do one of the following in order to continue as North American agents under an exclusive agency system:

- The owners or principals of the existing agency can organize a separate, noncarrier corporation to act as the North American agent.
- They can revoke their existing authority.
- They can transfer their existing authority to a third party or to a new organization having no affiliation with North American.

North American Van Lines stated that the Motor Carrier Act of 1980 and the Household Goods Transportation Act of 1980 have caused North American to re-examine its agency relationships. The eased entry provision of the Motor Carrier Act made it easier for noncarrier-agents to obtain interstate household goods operating authority for the first time and for carrier-agents to expand the scope of their existing operating authority. As more traffic may be diverted from a van line to agents acting as individual carriers, North American said that a van line will be less able to plan for the future, or coordinate

loads for maximum vehicle utilization, or respond to the public as a single source of liability.

North American is also concerned with section 5(a)(1) of the Household Goods Transportation Act which provides that van lines are responsible for all acts or omissions of their agents within the actual or apparent authority of the agent from the carrier. North American stated that as carrier-agents increase in number and their operations expand in scope, the odds increase that a van line will be held liable for shipments moved under the authority of carrier-agents whenever a shipper claims the inability to distinguish between the service of the van line or carrier-agents.

North American is also concerned with the new pooling provisions in section 5(a)(1). North American believes that section 5(a)(1), by negative implication, provides that antitrust laws do apply to agreements or discussions between van lines and carrier-agents concerning the carrier-agents' rates. Section 5(a)(1) also stated that pooling applications are presumed to be in the public interest if they are the same or similar to pooling plans approved by ICC in the past. Since van line operations are now different, North American was uncertain of the status of modern household goods pooling plans. Finally, section 5(a)(1) directs ICC to adopt procedural regulations to expedite the filing of household goods pooling applications. These regulations, when ICC adopts them, would require van lines to obtain ICC approval of their pooling agreements.

North American concluded that it would be better not to pool with carrier-agents, but to adopt an exclusive agency system because such a system would

- not confuse the public as to whether it was dealing with the agent operating under North American's authority or the carrier-agent under its own authority;
- strengthen North American's own individual carrier performance report and provide more accurate information to the public;
- minimize North American's liability for shipments in which the shipper claims the inability to distinguish between the service of the van line or a carrier-agent;
- better protect the integrity of North American's registered names, logos, and trademarks;
- eliminate the antitrust risk of discussing or agreeing to rates with carrier-agents; and
- enable North American to consolidate more loads and provide more cost-effective and fuel-efficient service.

North American intends to phase in the exclusive agency system gradually to avoid unfairness and sudden confrontation

with its agents. For noncarrier-agents, North American will execute a new exclusive contract after the termination date of the existing contract, provided the agent does not acquire ICC operating authority to transport household goods. Regarding carrier-agents under existing contracts with short notice termination dates, they will be expected to achieve noncarrier status by January 1, 1983. Regarding carrier-agents under existing contracts with fixed or longer term duration, North American agrees to continue to pool until the termination date of the contract, subject to ICC approval whenever ICC revises its pooling regulations. Thereafter, North American will contract only with noncarrier-agents.

Carrier-agents request ICC to investigate
van line changes in pooling arrangements

In an April 13, 1982, letter to the ICC Chairman, carrier-agents of Atlas and North American Van Lines requested ICC to begin an investigation to determine if changes the two van lines made or proposed in their pooling agreements are anticompetitive in practice or purpose. And if it is found that the practices are anticompetitive, the carrier-agents requested ICC to order the two van lines to cease and desist from such practices.

The carrier-agents stated that section 10101(7) of the Interstate Commerce Act requires ICC to promote competition and efficient transportation services. However, if the practices of Atlas and North American are permitted, the result will be to inhibit, frustrate, and lessen, or perhaps ultimately destroy, competition.

The carrier-agents also stated that the two van lines had no right to (1) require other carriers to give up their certificates, (2) shelve their certificates, or (3) lose the benefit of years of trading under their business name.

On April 20, 1982, the Director of ICC's Office of Compliance and Consumer Assistance replied to the carrier-agents' April 13, 1982, letter. The Director stated that since ICC had approved Atlas' application to modify its pooling agreement in order to accomplish the agency arrangement, it would be inappropriate for ICC to investigate that arrangement on its own initiative.

The Director also pointed out that the liberal entry policy of the Motor Carrier Act of 1980 creates unprecedented problems for carriers that have agents that, because of this liberal entry policy, may compete with them for the available traffic. Accordingly, he added that it is not surprising that these major carriers would undertake to protect their trademark and goodwill from infringement by a competitor/agent.

In closing, the Director advised the carrier-agents that the Interstate Commerce Act and ICC's General Rules of Practice

provide a vehicle by which the carriers-agents could bring the matter to ICC's attention for formal resolution.

Accordingly, on June 11, 1982, the carrier-agents filed a petition for ICC to reopen Atlas' pooling agreement proceedings. In the petition, the carrier-agents supplied additional evidence to support their position. One main argument of the petition was that Atlas unilaterally decided to change the pooling arrangement with its carrier-agents that ICC approved in February 1982.

On June 18, 1982, Atlas Van Lines moved to dismiss the petition. Atlas stated that it has not notified ICC of its intention to amend its existing pooling plan. It added that the policy statement which is the subject of the petition had not been implemented, and moreover, the policy will not be implemented until Atlas withdraws from the pooling agreement and/or submits a new or amended plan for ICC approval.

On August 16, 1982, ICC decided not to reopen the Atlas pooling agreement as requested by the agents. However, ICC decided to institute a proceeding on its own motion to examine Atlas' proposed policy relating to pooling with agents that also have their own interstate operating authority in a separate corporation. Also, the proceeding would be used to determine whether Atlas' actions are consistent with the goals and policies underlying the Household Goods Transportation Act of 1980. ICC added that the proceeding is particularly significant in light of the precedent which Atlas may be setting for the rest of the household goods moving industry in implementing its new policy.

In a February 17, 1983, decision, ICC noted that the proposed policy of Atlas sets forth certain options whereby existing carrier-agents could operate as Atlas agents if they would "spin-off" their operations under their own operating authority to a separate corporate entity. These new Atlas agents will not be performing regulated transportation services, and therefore, their operations will be conducted under Atlas' authority. The separate corporate entity operating under an agent's own authority will conduct independent, unrelated competitive operations. The affiliation between new agent and its separate corporate entity is not sufficient to confer carrier status on the new agent.

ICC concluded that Atlas' proposed policy results in it dealing with only noncarrier agents, and therefore, the agreement is not a pooling agreement between carriers and not subject to ICC approval.

Although concurring, the ICC Chairman expressed concern over the likely adverse impact of the Atlas policy on its agents and also the possible anticompetitive effects on the industry as a whole.

APPENDIX III

United Van Lines, Inc.
One United Drive
Fenton, Missouri 63026
(314) 326-3100

APPENDIX III



Office of The
President

January 25, 1983

Mr. J. Dexter Peach
Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

In accordance with your December 23, 1982, letter, I am enclosing comprehensive comments from United Van Lines, Inc. regarding your draft report entitled "Status of Regulatory Reform of the Household Goods Moving Industry."

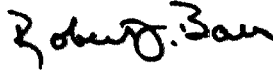
As the enclosure will indicate, our Management Team has given careful consideration to every aspect of your report, in view of the importance of its subject-matter. Our comments are divided into two sections: 1) general observations about the nature of our industry and the manner in which it continues to evolve under deregulation; and 2) specific suggestions for amendments to the draft on the basis of updated figures and new perspectives which you may wish to consider in formulating the final document.

We do not wish to presume to "edit" what is obviously a carefully structured and diligently researched report. And I want to compliment the forthright attitude of the GAO representatives who visited our van line to collect data. However, we believe it is vital that your status report be as current as possible so that its usefulness is enhanced, and our suggestions are forwarded with this objective in mind. At present, perhaps the most serious deficiency in deregulation of the household goods transportation industry is a lack of knowledge about the real impact of the reforms upon mover and consumer alike. I believe that your work will go a long way toward correcting misconceptions and generally illuminating a subject whose vagaries have proven a handicap to all involved.

We stand ready to elaborate upon any element of our comments and to provide further statistical back-up material as requested. We

look forward to receiving the final report and to using its contents in our own efforts to function efficiently and profitably in the new deregulated operating environment.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Baer". The signature is written in a cursive style with a large initial "R".

Robert J. Baer

RJB:sf

Enclosure

General Observations

Despite the complexities of the household goods moving industry, the Government Accounting Office (GAO) has succeeded in compiling a comprehensive, informative report. United Van Lines is in basic agreement with much of the data and analysis provided. We would, however, like to offer comments on certain areas which we believe should be examined in even greater depth in the final report. These areas may not always be apparent to those not involved day-to-day in the moving business, and yet they must be considered if one is to accurately gauge the true impact of regulatory reform on all concerned parties.

Of paramount concern is the ambivalent approach to van lines and their agents which has been evident in ICC actions of recent years and which is correctly echoed in the GAO report. The van line is depicted on one hand as an impediment to agents seeking to take advantage of operational freedoms made available by regulatory reform -- and on the other as the paternal, steadying influence which the ICC expects to assume responsibility for those same agents. The ICC, as revealed through its inaction on a variety of deregulation-related petitions which the industry has placed before it, seems uncertain which role it wants the van line to play. As a \$400 million-per-year corporation, we at United Van Lines want our position clearly defined in the new environment so that we can proceed with some degree of confidence. But in the process, we intend to safeguard the well-being of our structural components, namely the agent and the independent owner-operator.

Van line structure can confuse even the most astute observer, because as many as four separate moving companies and one or more owner-operators may become involved in transporting a single shipment from origin to destination. Van lines, almost without exception, were created by groups of agents who banded together after realizing they could achieve economic and operational efficiencies through centralized dispatch and other support services which they could not economically provide as individuals. Very seldom have moving agencies been created by van lines.

Van line ownership varies widely. United Van Lines, for example, is owned by 130 of its nearly 600 U.S. agents. Through an elected Board of Directors, these owner-agents determine the policies which will govern all United agencies, including their own. Some van lines are publicly held corporations; still others are owned and operated by single families.

Van line philosophy varies as widely as the style of ownership. Some, like Allied, maintain strict prohibitions against agents utilizing their own authority apart from the van line. United's approach encourages agents to operate autonomously in handling those shipments which agents admitted (on page 12 of the report) they can handle profitably: short-distance regional moves where they will not require return tonnage or other coordinating services in order to operate round-trip on a profitable basis. Long-haul shipments, however, are turned over to the van line, which can combine several in a given van for the benefit of van line, agent, driver, and shipper. Van lines thus develop distinct "personalities" and in this way attract agents who approve of the particular van line's philosophy.

There is one structural component common to all van lines: the independent owner-operator, who may lease his equipment and his operating services to a van line or to an agent. Because he is responsible for his tractor, his financial obligations are considerable and ongoing. Without his services, most van lines would be unable to function because most develop their fleets on a partial or total lease basis. United owns fewer than 60 trailers and no power units (tractors). The other 97% of the fleet represents equipment leased from United's agents, who, in turn, lease the services and power units of the independent owner-operators.

United's structure, therefore, is three-tier. The van line serves as the coordinating point, founded and owned by its agents. The agents perform sales and service functions, with the physical transportation of shipments usually handled by owner-operators providing their tractors and services under a lease arrangement. None of these tiers is self-sufficient; each depends on the other two.

It is important that this cooperative relationship be understood. And yet the ICC, as chronicled in the GAO report, seems uncertain about how to approach this multi-part entity. On page 37-38 of the report, the GAO notes that the ICC stated it "expected each van line to engage in self-regulation of its agents." On page 13-14, however, concern is expressed that van lines are unduly imposing their restrictive will upon agents who, it is implied, would otherwise make greater use of the freedoms provided by regulatory reform. It would appear that the ICC, in attempting to implement the Act, wants to acknowledge the van line only in those circumstances when it suits the ICC's purpose -- but not in all circumstances. This is an extremely difficult position for a van line.

We believe the ICC and other agencies are performing a major disservice by perpetuating their periodic and selected efforts to pit van line against agent. The van line was formed and exists today as a result of agent demand for the types of coordinated servicing the van line can provide. Independent movers have never been forced to become agents of any particular van line. They do so of their own volition, and they may at any time disassociate themselves from a van line, which often happens.

The GAO discovery that agents apparently are not making extensive use of newly acquired or available authority is not surprising. Some van lines may impose operational restrictions in accordance with the philosophy of the van line -- a philosophy often forged by the agents. But in most instances, the agent who is not making more use of his own authority is simply utilizing the van line as he has in the past -- for those long-haul services which caused him to affiliate with the van line in the first place.

With this in mind, we question the prominence given comments of three agents at the top of page 13-14. The quote reflects the agents' belief that their van lines would probably terminate them if they made extensive use of their new authority. This is not true at United Van Lines -- and it is too cut-and-dried to be applicable to many major carriers. These agents may be correct about their van lines' attitude. But, in the case of United, the rules are drawn up by fellow agents.

To summarize: the reasons why agents are making limited use of their new authority are noted in the GAO report: 1) the economics of hauling; and

2) the cost of providing services usually provided by the van line. Instead of having to knuckle under to van-line restraint, agents are basically continuing to rely upon van lines for the services which originally led to the van lines' creation by the agents.

The report raises a similar question of "agent vs. van line" on page 15 when it states that the "ICC now permits an agent with its own operating authority to establish prices which differ from its principal van line." The report goes on to speculate about why agents visited do not intend to establish such differing rates -- but the best answer may be found on page 23 where an agent "noted that two separate rates would create a chaotic environment for its employees." United's pooling order specifies a single rate level for agent and van line. It is our contention that competition, so heartily encouraged by regulatory reform, should be between van lines and not between the van line and its own agents. The customer generally chooses a van line by name with no recognition that the agent is involved. He does not see "ABC Moving Systems" on the truck; he sees only "United Van Lines" and thus considers United responsible for that move. In the same way, the Act is quoted as specifying (on page 36 of the report) that "Each household goods carrier shall be responsible for all acts of its agents related to services performed for the carrier." This presumes cooperation in every area, including price. Cooperation is the van-line cornerstone. Despite some dissenters (like those quoted in the report), most agents recognize they must give to as well as receive from the van line to help maintain the strength of the entire system, and they do not wish to compete with their carrier. We strongly disagree, therefore, with the recurring suggestion in deregulation that van lines and agents should be both allies and adversaries. You can't have it both ways, whether in pricing or in other aspects of moving.

Pricing, in general, has become the hottest issue in regulatory reform. While the Act was created ostensibly to establish "pricing and quality options," the nature of household goods transportation does not lend itself to classes of service like those offered by airlines. All shipments are loaded and transported in the same manner in the same type of vehicle, ideally with the same handling care. Pricing, therefore, is really the only variable, and the competitive pricing programs developed by all major carriers are clear by-products of deregulation.

The ICC, however, has provided no clarification or direction in this area. A weak economy and a consequently shrunken moving market have prompted widespread ratecutting which has thrown the industry into virtual disarray. Movers have long relied upon rate bureaus to gather cost data and translate that data into rates which would enable movers to operate profitably. Today, the rate bureau's continued existence is threatened, shaking the foundation of movers' basic rates. At the same time, movers have filed hundreds of independent actions to cut rates in order to attract customers and counter rate reductions of competitors, resulting in discounts which have no relationship to actual costs. The fate of rate bureaus rests with the Congressional Ratemaking Study Commission, whose findings now are not going to be released until mid-1984. Those findings are anyone's guess. And even if the Commission should radically reform the rate bureaus, the ICC will still be in the picture in a still-undefined role. Thus, while the governmental bodies remain on the sidelines, offering no guidance on such key issues as contract carriage, volume discounts, and binding estimates, van lines are forced to proceed on the basis of instinct. And while the ICC

has seldom balked at carriers' applications for cutting rates, there is no basis for believing that, when business conditions improve and rates may competitively start to rise, the ICC will not suddenly step in and begin to enforce its more narrow "Zone of Rate Freedom." There is a major difference between long-term rate strategies and short-term responses to competitive rate actions.

Uncertainty about the role of regulators takes many forms. One involves paperwork. On page 5, the report notes a major tenet of the Act: "The ICC operating regulations and paperwork required of household goods carriers shall be minimized to the maximum extent feasible consistent with the protection of individual shippers." This goal is not being realized...because of uncertainty. The many new competitive programs described in the report (volume discounts, binding estimates, contract carriage) have caused van lines to develop dozens of new agreements, forms, contracts, and other documents. While it is true that most of this paperwork is self-generated and not specifically required as yet by the ICC, over the years the ICC has always demanded exhaustive documentation of a mover's every action. The same has been true for DOT and state agencies. We are currently in a "down" rate cycle which someday will again begin to swing upward, offering new incentives for ICC audits. And movers are instinctively anticipating the staggering fines which could be levied if such an audit finds documentation lacking. Thus, while not specifically requiring more paperwork, the ICC's vague stance is causing van lines to maintain their vigilance. In the process, the Act's stated objective of reducing paperwork is not being achieved.

The matter of paperwork is but one of a number of issues which remain undecided by the ICC, despite van-line and industry petitions. Some are chronicled in Appendix II of the GAO report: discount rates for national accounts; brokerage arrangements with relocation companies; contract rates for national accounts; definitive word on pooling arrangements and exclusive agencies -- this list is but a sampling. The mover today, therefore, is operating in limbo. As a result, any benefits which might be accruing to the shipper through rate competition are only temporary, and the industry has yet to realize any lasting benefits from the Act. What exists today is not a deregulated environment. It is a situation where a few of the rules have been changed on an absolute basis (ease of authority acquisition, for example), and due to depressed market conditions, movers have resorted to these rule changes in an effort to gain a momentary competitive advantage. But with the regulators merely watching the proceedings (and occasionally pitting participants against one another), movers have no way of knowing if what they are doing will be countermanded in the future -- or if they can rely upon the present as a foundation for coherent long-range operating policies.

If issues were definitely decided by the ICC, van lines might gain confidence in, for example, doing away with some of their precautionary paperwork. But vestiges of red-tape remain and appear anew, exemplified by the cumbersome system for obtaining approval of contract-carriage agreements, a deregulation-inspired pricing approach. At present, it is commonplace for competing van lines to protest contract applications as "unfair." These protests are permitted and, almost without exception, eventually rejected. And yet they succeed in prolonging the procedure and adding to the van lines' costs when the eventual outcome is a foregone conclusion. Contract carriage is new to our industry; bureaucratic delays are not.

United believes that the real impact of regulatory reform upon the moving industry will eventually be discerned in statistics charting the financial performance of the various participants. However, we find it unfortunate that the GAO had to base its limited financial findings in the report upon returns from Class I van lines (which are only one part of the three-tier system in the moving industry), together with a sprinkling of Class II carriers (which include van lines' largest agents). In the process, the other two tiers of the business are not represented -- the agent with less than \$1 million in operating revenue; and the independent owner-operator. The GAO noted on page 7 that its questionnaire response from smaller agents was so low that the information was useless. There is no mention of any attempt to poll the owner-operator.

In the area of finances, the report begins to touch the right nerve on page 39-51 with the acknowledgement: "Our analysis showed that Class I carriers appear to be doing well financially but Class II carriers have experienced declining earnings the past few years." We contend that the analysis focuses on those industry segments which are most fully insulated against short-term economic problems, while failing to take into account those segments which are most vulnerable. We believe a study of smaller agents and owner-operators would reflect a much greater decline in earnings, partially attributable to the economy and partially attributable to problems created by the murkiness of deregulation. The Class I carrier and its financial results may be viewed as the sum of many parts -- dozens or hundreds of agents, many of them small; and hundreds or thousands of owner-operators. Because United leases its equipment from agents, who in turn lease the power units from owner-operators, United in itself does not have a massive capital commitment for which it is responsible; the agents and tractor owners shoulder most of the investment burden for the van line. United does maintain its central Headquarters office building and staff, but it does not own any agencies or warehouse facilities, all of which are agency-owned. United is not like a motor-freight carrier which may own its terminals, warehouses, and rolling stock. United exists on commissions received for performing centralized services in behalf of the agents who choose to affiliate with it. Thus the parent van line is much less vulnerable on an immediate basis to financial fluctuations which can more quickly drive capital- and labor-intensive businesses (like agents and owner-operators) to bankruptcy. Last June, the American Trucking Associations released a survey which showed that, since mid-1980, 190 motor carriers (not movers) had gone out of business, and it noted that "Most of the affected firms were small, both in terms of revenue and employees." We believe the same to be true in our industry and suggest that the GAO report examine the financial status of smaller agents and owner-operators who, in truth, are supporting the Class I carriers. Inevitably, erosion of the "lower" tiers will reach the van line, as its components become fewer and it is less able to perform the coordinating service functions for which it was created. The end result would be reduced capacity in the moving industry (short-term efficiency through attrition) -- which will translate into slower service for the shipping public when business begins to rebound and the need for movers increases.

The GAO report on the impact of regulatory reform on the household goods transportation industry does a comprehensive job of laying out a multitude of facts and portraying many of the developments and trends resulting with surprising incite and accuracy. But we respectfully suggest that the GAO should delve more deeply into the ramifications of reform upon all participants -- agents and

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owner-operators, as well as the van lines. The information, as GAO is well aware, is not easy to obtain. But it is vital to laying out the entire picture.

United cannot offer any miracle solution to the problems which persist in our industry. But we are convinced that only if issues in question are decided; if the interests of all participants are considered at every step; if the various participants are not artificially matched against one-another for the sake of contrived competition; and if the ICC moves aggressively to spell out what its long-term interest in the moving industry will be and those areas for which van lines will be held accountable -- only then will the Act have any chance of achieving the principal stated goal of Congress: to protect the individual shipper and assure the continued availability of efficient, economical household goods transportation services.

Specific Comments (keyed to pagination and underlined material in attached copy of GAO report)

- Page 3 Sentence should reflect fact that owner-operators may lease themselves and their tractors to a van line or agent for the purpose of hauling shipments.
- Page 4 It is true that the so-called "zone of rate freedom" has not been used with any degree of regularity since implementation of the Act and that the ICC generally is not questioning independent-action rate changes. We point out, however, that the vast majority of all such actions are rate decreases and that rate bureaus are still maintained for rate-making purposes.
- Page 8 A. As outlined in greater detail in our general observations, many United Van Lines agents have obtained and are using new authority as a result of regulatory reform. United is much less restrictive than other major carriers with respect to agents' use of their own authority. Agents continue to rely upon the van line for coordination of long-distance moves which they could not handle profitably on their own without return shipments and other centralized services.
- B. While it is true that, as under prior legislation, applicants for operating authority are still theoretically required to show they are fit, willing, and able to provide transportation, it has been our experience that the ICC is now generally ignoring even these guidelines in approving new authority. As cited on page 10 of the report, 96.7% of processed authority applications resulted in some grant of authority in 1981, compared with 69.8% in 1976, indicative of the new approach.
- Page 10 We question the "new or expanded authority" statistics for the years 1980 and 1981. The figures shown are for all motor-carrier applications. We believe that a break-out of household goods carriers would show a lesser interest in obtaining or expanding authority.
- Page 12 A. It should be noted that United Van Lines leases trucks from agents to haul in excess of 97% of shipments handled by United Van Lines. When an agent agrees to haul on his own authority only those shipments traveling under 750 miles while turning his remaining shipments (those moving over 750 miles) over to United, we are able to combine long-haul shipments to develop better loads for all involved agents. As van-line agents themselves have noted in the GAO report (also on page 12), it is economically necessary to obtain return tonnage to operate in excess of 600 miles. In planning return tonnage, United will assign it to the agent hauling in excess of 750 miles on his own authority if there are no other agent trucks available. But if another agent awaiting return tonnage has operated to that point on United authority, that agent will be given priority for returning the shipment to his domicile.

It's not a question of United, rather than the agent, hauling the tonnage; it is a matter of which agent will be assigned the shipment, a priority based upon the agent's decision of which tonnage he will turn over to van-line authority. In essence, it's a matter of cooperation.

B. The sentence should be amended to indicate that van lines were created to allow agents to operate over long distances efficiently.

C. Again, while one particular agent may be restricted from receiving a backhaul shipment in a situation, another United agent will perform that backhaul, thus making it advantageous for an agent to turn long-haul shipments over to United authority in order to become eligible for the best return loads.

- Page 13-14 This is not true for United. We believe it is an unrepresentative sampling to draw any conclusion based on the opinions of only three respondents.
- Page 17 Please note revisions to the United Van Lines volume-discount program, providing national accounts with greater savings than in the past. This change, which took effect on November 1, 1982, is current as of January 20, 1983, although the competitive situation remains fluid and may precipitate further changes.
- Page 18 This statement should be updated to reflect United's discount experience through calendar-year 1982. The total dollars of volume discounts for the period July 1, 1981-December 31, 1982, is estimated by United to be \$4.5 million. This is in addition to an estimated \$5 million in discounts provided through the 7% Proviso I linehaul reduction in effect from July 27, 1981, through December 31, 1981.
- Page 20 A. These figures should be updated to reflect 20 contracts now in effect for United (compared to 2 in the report) and 47 additional contracts in negotiation or awaiting ICC approval (versus 22 in the report).
- B. United Van Lines strongly disagrees with this statement. We contend that the binding estimate can provide the COD customer with excellent discount opportunities. We do not believe discounts discriminate against the COD shipper.
- C. We suggest this statement be amended as follows: "A management official of United Van Lines stated that as a result of the poor economy fewer people are moving, which results in excess capacity. According to the official, van lines are offering such things as volume discounts and contract carriage in an effort to fill excess capacity. COD customers are also benefitting from discounts provided through such new programs as binding estimates. He noted, however, that he believes the rates COD shippers pay will go up when the economy improves and current excess capacity disappears."

- Page 21-22 The Act provides for the ICC to approve pooling arrangements between agents and carriers which might provide antitrust immunity in individual cases for van lines and agents to remain on the same rate level. This is the case with United Van Lines and its agents.
- Page 22 In fact, the Act has resulted in various pricing options for shippers but in very few quality options, given the nature of the business which precludes the practical establishment of various "classes" of service.
- Page 24 We wish to note that the binding estimate is now offered by most carriers and is becoming increasingly popular with our shippers, contradicting the "limited use" reported by the GAO. Although, as the chart indicates, only 137 of 101,579 shipments transported in 1981 were binding-estimate shipments, during calendar-year 1982 preliminary figures reveal that 2,578 out of 195,211 shipments were booked using the binding estimate. This momentum has continued into 1983, indicating that more COD shippers are taking advantage of the discount opportunities which this new program presents.
- Page 26 A. We dispute this conclusion. We believe that carriers are more aggressively marketing binding estimates and that, based on our own experience, COD shippers are taking much greater interest in this type of shipping program.
- B. We believe this statement is unrealistic, particularly in the current operating environment when competition for every shipment is fierce, even in peak season. A shipper who fails to obtain more than one estimate might not obtain the lowest possible price.
- Page 34 Please note the changes in verbiage. It is "valuation" or "liability protection" which is being offered by the van lines, not actual insurance coverage. References to "standard" should be changed to "minimum."
- Page 35 Suggested amendment: Van lines act as self-insurers for their full-value protection programs, with some exceptions and limitations. United Van Lines, for example, has a \$100,000 retention limit for its full-value plan.
- Page 36 A. Please note suggested word changes, similar to those on page 34.
- B. Suggested amendment: A United official said the improvement resulted from strict van operator qualification procedures, comprehensive internal training programs, close monitoring of van-operator performance through a claim experience rating report, and a formal review process for van operators with high claims frequency.
- Page 37/38 The implication in this paragraph seems to be that shipper complaints on quality which are channeled first to the agent or van line are somehow suppressed by the mover. United, in fact, has long maintained an ombudsman service (our "Bette Malone" Customer Assistance Center) where customer complaints are received (and resolved) on a daily basis. We believe the thrust of the statement could be more posi-

tively worded in the respect that some carriers maintain specific departments to deal with customer problems, resolving them before a shipper feels compelled to go to the ICC or other regulatory entity. The fact that carriers seek to make a situation "right" should be viewed as a commendable effort, rather than an attempt to muffle discontent.

Page 67

The report states that the ICC "does not intend to interfere" with arrangements between a relocation company and the person being moved. United is of the understanding that this matter is still open to interpretation, and we question whether or not the ICC has, in fact, expressed such an intention not to interfere.

GAO Evaluation of United Van Line's Comments

United Van Lines in responding to the report presents varied comments--philosophy about the industry and its own operations, problems with ICC actions, and suggested changes to improve the report's accuracy. In many cases, their comments discuss issues which were not the subject of our review, and therefore, we do not believe a specific comment or response by us is warranted. In those cases where United provides clarification about our references to its operations we made those changes in the report.

In its "general" comments, United discusses what it believes is ICC's ambivalent approach to van lines and their agents as evident by ICC actions of recent years. Specific examples United discusses include

- fostering competition between van lines and their agents instead of between van lines,
- needing clarification or direction in ratecutting taking place, and
- maintaining precautionary paperwork in anticipation of possible ICC requirement for documentation.

Although we included the complete text of United's comments in the report, we do not believe that detailed responses are needed except for the following points. These points, in our opinion, are those most relevant to the issues addressed in this report. United raises concern about the prominence we gave to the views of three agents. We have revised the report to recognize that the agents' views are about the van lines with which they are associated and included United's position (see pp. 13 and 14). Also, United expressed concern that we had to limit our financial findings to Class I van lines together with a sprinkling of Class II carriers and did not include Class III carriers, agents, or owner-operators. For Class II carriers we used a statistically valid sample of the 134 carriers that had submitted annual financial reports to ICC, and therefore, we were able to project the results to the universe of the 134 carriers. For Class III carriers and agents we sent out a questionnaire to 700 carrier-agents and agents. However, the response rate was too low (84 were returned) to utilize for projection purposes, and therefore, the data was not used. (See pp. 6 and 58.) Since this area was addressed on page 6 of the report, we did not believe that it was necessary to make any changes to the text on this point.

In responding to the "specific" comments United made, we have made the suggested changes in all cases except two. These are as follows:

--United disagreed that discounts discriminate against COD shippers. In an effort to clarify United's position, we talked with a vice president of United. He said that if we are referring only to volume discounts and contract carriage (which we are, see pp. 15 and 16), then these pricing options do discriminate against COD shippers. He added that binding estimates are being used to provide COD shippers with discounts.

--On page 37 United believes that we imply shipper complaints are somehow suppressed by the mover. This is not our intention. We point out that ICC only has complaint data for those complaints it receives and is unaware of complaints received and resolved by agents and van lines and therefore, does not have a complete complaint record on agents in order to identify unfit agents.

GAO note: Page references in United's comments refer to the draft report.

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December 30, 1982

Mr. J. Dexter Peach
Director
United States General Accounting Office
Washington, D.C. 20548

Re: Draft of Proposed Report-Status of
Regulatory Reform of the Household
Goods Moving Industry

Dear Mr. Peach:

This will acknowledge and respond to your letter of December 23, 1982 to Mr. Sidney D. Epstein, President Allied Van Lines, Inc. requesting comments upon your proposed draft.

Both Mr. Epstein and myself have reviewed the proposed Report. Your Report is consistent with the input given to the GAO staff that visited Allied's Corporate headquarters last Spring. With a few minor exceptions such as its remark on page 28-29 that average revenue per items figures cannot be relied upon, the Report seems to be in substantial order.

It is our belief that the investigation and report is premature. Both the Motor Carrier Act of 1980 and the Household Goods Transportation Act of 1980 are so new that the industry is still in the "breaking in" stage. This is reflected within the report as it often states that information is not available. It would have been better if the GAO had waited five years or until 1986.

If I can be of any assistance, please feel free to call or write. If you wish your draft returned to you, let me know.

Very truly yours,

ALLIED VAN LINES, INC.

Joseph P. Tuohy
Joseph P. Tuohy
Senior Counsel

JPT/wmk

GAO Note: Page references refer to the draft report. On page 28 of this report we point out that comparisons to actual weights would be more accurate.



January 18, 1983

Mr. J. Dexter Peach, Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

This is in response to your letter of December 23, 1982, asking for our review and comments on the draft report entitled "Status of Regulatory Reform of the Household Goods Moving Industry". Our comments are as follows:

1) Page 12, First Paragraph, Third Sentence -

It appears to us that this should read as follows:

"Trucks with shipments handled by the agent under the Van Line's authority will be given goods to transport back to or close to the original departure (backhauls), when available, by the Van Lines to prevent trucks from returning empty."

We suggest the removal of the quotes around (under the Van Line's authority) and adding "when available" after the word 'backhaul'.

2) Page 17 -

It isn't true that a COD shipper cannot qualify for the Volume Discount Program. The program is set up to provide a discount on a single shipment if it should exceed the minimum linehaul.

3) Page 32, the paragraph dealing with the number of guaranteed service shipments under Mayflower authority -

The second sentence should be revised as follows:

"One Mayflower official said that the shippers may not be informed about the service". We feel that this is more appropriate than the sentence which reads, "One Mayflower official said that the agents are obviously not informing shippers about the service".



January 18, 1983
Comments on Regulatory Reform
Page 2

- 4) Page 34, Second Paragraph, Starting with, "However, another Mayflower official said he believed the program will be effective." -

We do not believe that this paragraph is reflective of the position of Mayflower and we desire this paragraph's removal.

- 5) Page 34, under Full Value Protection -

There needs to be a removal of the idea of insurance from this paragraph. This is not insurance, as carriers are not licensed to sell insurance.

- 6) Page 36, Top Paragraph, Third sentence -

This sentence should refer to collections of Full Value Protection charges; and in addition, the fifth sentence should read as follows: "In some cases, these reserves were combined with other released value options." In other words, we desire the removal of the term insurance.

As you can see, we did not have many comments. If we can be of any further service in this matter, please advise.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Daniel E. Yates".

Daniel E. Yates
Senior Vice President
and General Counsel

DEY:pmc

GAO note: The page references refer to the draft report. All of the above suggestions except for number 2 have been made. A Mayflower official agreed that a single shipment in a year could not qualify for any discount, but a COD shipper with more than one shipment may qualify for a discount.



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January 28, 1983

Mr. J. Dexter Peach, Director
United States General Accounting Office
Resources, Community, and Economic
Development Division
Washington, DC 20548

Dear Mr. Peach:

Enclosed herewith please find the Comments requested in your letter of December 23, 1982, and about which I spoke with James Blume last week. I apologize for the brevity and summary nature of the Comments, but time constraints simply did not allow as elaborate an analysis as I had hoped to provide.

Very truly yours,

David D. Bishop
Attorney

ck
enclosure

cc: Mr. James M. Blume
United States General Accounting Office
Resources, Community, and Economic
Development Division
Washington, DC 20548

COMMENTS
AND/OR SUGGESTED REVISIONS
TO
DRAFT REPORT

Enclosed with a letter dated December 23, 1982, addressed to Mr. Joseph D. Ruffolo, North American Van Lines, Inc., (North American) was a copy of the draft report entitled "Status of Regulatory Reform of the Household Goods Moving Industry." Comments on the draft report were invited. The comments set forth herein constitute those matters which North American management believes should be corrected, added to or deleted from the final report.

PRICING TECHNIQUES

The draft study, at pages 18 and 19, indicates that North American handled approximately 3,000 moves under its volume discount program (VIP) in 1981 at an estimated total discount of \$292,313. In fact, North American moved 3,600 shipments under the VIP at discounted revenues equalling \$308,000.

Since the GAO information gathering process was completed, activity in the area of contract carriage has increased substantially. North American is currently operating under approximately 25 contract carriage agreements with another 200 such agreements at various stages of negotiation and/or the administrative (ICC) process. Contrary to the draft study language found at the top of page 21, "most" household goods contract carriage agreements include no minimum shipment or volume commitment by an account or a shipper. A more appropriate statement might be: "All but a very few household goods contract carriage agreements lack any volume commitment from the contracting shipper."

Although the agents interviewed by the GAO may not generally establish prices which differ from the van lines with which they were affiliated, it would be inappropriate to draw the conclusion that such practices are the norm, at least with regards to North American agents. North American publishes its household goods rates through the Household Goods Carriers' Bureau in Tariff No. ICC HGB 400-B and Exceptions Tariff No. ICC HGB 104. Of North American's more than 600 agents, located in more than 830 communities, approximately 230 hold interstate household goods operating rights. Of those 230 carrier agents, only 36 have standing

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instructions to the Household Goods Carriers' Bureau to publish all rate actions filed by North American for their agency. As such, all but 36 of those 230 carrier agents have rates in effect, either through ICC HGB 400-B, ICC HGB 104, or other tariffs published on behalf of such agents, which differ in some respect from the rates of North American.

Activity in the area of binding estimates also increased substantially in 1982 versus 1981. Primarily due to the need to respond to competitive pressures, North American agents registered 5,614 shipments with North American for which binding estimates had been given the shipper. The total number of first proviso household goods shipments handled by North American was 113,683. It is thus apparent that North American participated to a far greater extent in the practice of binding estimates in 1982 as compared to 1981.

One further comment appears warranted regarding the pricing techniques of household goods carriers. As of this date, no household goods carrier has utilized the zone of rate freedom mechanism provided in 49 U.S.C. §10708.

NEW SERVICES TO SHIPPERS

Since the completion of the GAO information gathering process, North American has had twelve (12) requests from shippers to utilize the procedures of North American's dispute settlement program. In each instance, however, claim settlement was negotiated and the dispute(s) resolved before resort to arbitration became necessary.

CONCLUSION

North American suggests that the additional and more current information fairly reflects the changes which have come to pass since the conclusion of the GAO's fact gathering. As such, it is respectfully requests that these comments be incorporated into the GAO's final report.

Respectfully submitted,

NORTH AMERICAN VAN LINES, INC.

By: 

David D. Bishop
Its Attorney

GAO note: Page references refer to the draft report. North American's comments have been incorporated into the report except its statement that no carrier has used zones of rate freedom mechanism. While this may be the situation for North American, it may not be so for the industry. In fact, United in its comments (p. 86) states that this mechanism has not been used with any degree of regularity which implies some use by the carriers.

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