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

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-152283

APRIL 25, 1985

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The Honorable Barry Goldwater
Chairman, Committee on Armed Services
United States Senate

Dear Mr. Chairman:

Subject: Expansion of the Military Traffic Management Command's Intrastate Rate Acquisition Program (GAO/NSIAD-85-38)

This report responds to the request of the former Chairman, the Honorable John Tower, that we review the Military Traffic Management Command's (MTMC) proposed expansion of its intrastate rate acquisition program for moving household goods. MTMC has proposed expanding the program, presently in use in 7 states, to all the remaining states except Alaska and Hawaii. However, it has agreed to delay the expansion pending completion of our review.

In fiscal year 1983, the Department of Defense (DOD) spent about $14 million on the intrastate movement of household goods. This was less than 1.5 percent of the $961 million paid to moving companies for the worldwide movement of DOD household goods.

Prior to 1980, there was no centralized system for determining the rates at which DOD-funded intrastate household goods shipments would be moved. Rate-setting procedures varied from state to state. For example, in Texas, all shipments were moved at a single collectively set "exact" tariff approved by the state utility commission. In other states, carriers submitted their individual tariffs to the military installations where they desired to do business.

Since 1980, several states that previously had collective tariffs have deregulated their trucking industries, thus discontinuing the collectively set tariffs in favor of individual tariffs. As of January 1985, Florida, Maine, Wisconsin, Arizona, Idaho, and Colorado had deregulated.

When the first of these states (Florida) deregulated, in 1980, MTMC, the single manager of DOD's worldwide personal property program, introduced a centralized intrastate rate

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acquisition program. Under this program, MTMC solicits intrastate rates from the individual carriers in much the same way as it does interstate rates. Carriers are required to submit rates for each military installation they desire to serve, expressed as percentages of common rates contained in rate tables in a solicitation package. The program differs from the interstate program in that the initial low rate-setter is rewarded by being offered the opportunity to move 50 percent of the total intrastate tonnage originating at the installation.

By January 1985, MTMC's intrastate rate acquisition program had been implemented in the six deregulated states. It had also been implemented in California, a regulated state with the largest volume of intrastate shipments.

In our evaluation of the program, we obtained the views of officials of MTMC; the moving industry at the national, state, and local levels; and state regulatory agencies in Texas and Pennsylvania. We also visited or contacted military installation personal property shipping offices in Texas, Arizona, California, Florida, Virginia, North Carolina, Kansas, Washington, and Georgia. These states account for more than 80 percent of DOD's intrastate movements. A complete list of organizations and installations contacted is included as enclosure II.

Based on our review, we believe that the proposed expansion of the MTMC intrastate rate program is reasonable; that it will facilitate rate solicitation, submission, and analysis; that it will promote needed competition; and that it has the potential to reduce the government's cost of moving household goods. The results of our review are described in detail in enclosure I.

The Department of Defense concurred in our findings and conclusions. However, moving industry representatives, in commenting on our draft report, voiced concerns about certain aspects of the program, such as the impact of increased administrative costs and the awarding of incentive tonnage on the carriers involved. The major points raised in the industry comments and our evaluation are included on page 8 of enclosure I. DOD and industry comments are included as enclosures III through VI.

As arranged with your office, we are distributing copies of this report to the Chairman of the House Committee on Armed Services and the Secretaries of Defense, the Army, the Navy, and the Air Force.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Director

Enclosures - 6

PROPOSED EXPANSION OF THE MILITARY TRAFFIC MANAGEMENT COMMAND'S INTRASTATE RATE ACQUISITION PROGRAM

OBJECTIVES, SCOPE, AND METHODOLOGY

Because of numerous protests from industry members over the Military Traffic Management Command's (MTMC) proposal to expand the intrastate program to all states, the former Chairman, Senate Committee on Armed Services, asked us to review the program. He asked that the review specifically address

--whether a single intrastate rate system is needed;

--what the rationale is for MTMC's proposed expanded system;

--what the objections of various carriers organizations and individual carriers are and whether they are valid;

--what special problems may exist with a uniform intrastate rate system because of state law or regulation, such as those in Texas; and

--whether MTMC's proposed system should be imposed in any state or states when compared with the existing system in effect in those states.

During the review, we obtained the views of officials of MTMC; the moving industry at the national, state, and local levels; and the state regulatory agencies in Texas and Pennsylvania. We also visited or contacted military installation personal property shipping offices in Texas, Arizona, California, Florida, Virginia, North Carolina, Kansas, Washington, and Georgia. These states account for more than 80 percent of Department of Defense (DOD) intrastate movements.

The shipping offices provided detailed operating information, such as carrier and agent listings, rate tariffs, carrier operating authorities, tonnage distribution, local contracts, and administrative workload, for use in determining the impact of the MTMC program.

Our review, conducted from July 1983 through January 1984, was performed in accordance with generally accepted government auditing standards.

RATIONALE FOR MTMC'S RATE PROGRAM

MTMC justified its intrastate rate program on the basis that it would

--increase efficiency at the military installation shipping offices by introducing uniform rules and procedures and would facilitate solicitation and analysis of carrier rates based on common rate tables;

--conserve transportation funds by increasing competition in rate setting, thus resulting in lower rates; and

--respond to deregulation by providing a vehicle for rate setting to replace the collectively set rate tariffs used in some regulated states.

Under the program, MTMC uses a solicitation package which contains uniform rules and procedures. Rates are solicited from individual carriers twice a year and are expressed as percentages of common rates contained in rate tables in the solicitation package. Because rates all relate to the same rate tables, analysis to determine the lowest available rates is greatly facilitated.

The program should ease the shipping office work load not only in states where collectively set tariffs are not available, but in many regulated states where individual rates are offered in addition to the collective tariff. For example, in Virginia, a regulated state, the carrier industry presently uses a multilevel collective tariff. Individual carriers may do business at the tariff level of their choice and may change their rates on 30 days' notice. The carriers also offer discounted rates to the government. At the time of our review, there were 18 different rates in effect at the Joint Personal Property Shipping Office, Cameron Station, for shipments within Virginia. Of the nine states covered in our review (accounting for more than 80 percent of the military intrastate traffic), six offered individual discounted rates for government traffic.

Transportation rates in those states where carriers operate under a collectively set tariff were generally higher than rates in states where individual tariffs were available. For example, although the costs of labor and vehicle fuel were lower in Texas, rates under the collectively set tariff averaged as much as 87 percent higher for shipments of the same weight and distance than individual tariff rates available at major shipping offices in California, before California went under the MTMC rate program. Similarly, the rates contained in the collective tariffs used in Kansas and Washington were also higher. Thus, it appears that introducing individual tariffs in place of collectively set tariffs will result in reduced transportation costs.

In addition to introducing competitive rate setting in states in which carriers are now operating under a collectively set tariff, the MTMC rate program is designed to increase competition in all states by providing an incentive for carriers to bid low rates. This is accomplished by offering 50 percent of available tonnage from a military installation to the carrier that initially sets the lowest rate. Other carriers that match the low rate share the balance of the business.

In an earlier report on the international shipment of military household goods, entitled Adoption of a Single Method of Shipping Household Goods Overseas--Pros and Cons (LCD-76-225, May 6, 1976), we concluded that not rewarding the low rate setter with incentive tonnage had contributed to unreasonably high rates. DOD subsequently introduced a competitive rate program for international shipments which awarded incentive tonnage. This resulted in substantial savings in shipping costs.

We believe the intrastate rate acquisition program meets the MTMC objective in that it facilitates the solicitation and analysis of individual shipping rates. Further, the use of individual rates in place of collectively set tariffs should encourage competition, thus reducing shipping costs.

INDUSTRY OBJECTIONS TO THE PROGRAM

Moving industry representatives we contacted were nearly unanimous in their objection to the proposed MTMC intrastate program. Their primary objection was to the concept of incentive tonnage where 50 percent of a military installation's available tonnage is offered to the initial low bidder. Some representatives also expressed concern that competitive rate setting under the MTMC program would result in some carriers purposely offering rates below costs to drive smaller carriers out of business. They also felt that the lower rates could result in carriers cutting corners on the quality of service.

We believe the concern on the part of industry with the MTMC intrastate program is understandable when viewed in light of the probability that its implementation would result in many carriers getting less intrastate tonnage and getting it at lower rates. While any reduction in the amount of tonnage individual carriers move or in the rates at which it moves could adversely affect some carriers financially, shipping office officials told us that they knew of no instances of carriers going out of business as a result of implementing the program. Because of the relatively low dollar value of the program--$14 million, or less than 1.5 percent of the more than $961 million paid by DOD directly to members of the industry in fiscal year 1983--and substantial participation by the intrastate carriers in other elements of the personal property program, as well as in commercial business, we believe that it is unlikely that substantial numbers of carriers would be driven out of business. For example, virtually all the carriers providing intrastate service to the installations we visited also participated in interstate and international traffic either directly or as agents. Many of the carriers also contracted to provide other services, such as packing and crating, local moves, and nontemporary storage.

Some industry representatives expressed concern that the intrastate program would increase the administrative workload of both DOD and the carriers. This could be true in states where individual tariffs are not presently used. In these states, all shipments move under a collective statewide tariff; thus MTMC does not have to solicit rates, the individual carriers do not have to prepare and submit them, and the shipping office has only one intrastate tariff to work with. However, most states use individual tariffs to some extent. In these states, the MTMC program should reduce the work load of both the carriers and the shipping offices by simplifying the preparation, submission, and analysis of the individual tariffs.

IMPACT OF STATE REGULATIONS ON IMPLEMENTATION OF MTMC PROGRAM

MTMC notified all responsible state regulatory agencies of its plan to expand the intrastate rate program to all states. Our review of MTMC's files disclosed only one instance in which state officials questioned DOD's authority to implement the intrastate rate acquisition program. In that instance, a Pennsylvania state utilities official at first questioned DOD's authority to implement the program but upon hearing MTMC's legal position, raised no further objections. We visited the Railroad Commission of Texas and were told by an official of its Transportation Division that implementing the program would give the commission no problem. He pointed out that Texas already comes under DOD's system for soliciting interstate rates.

However, we did find that regulations under which carriers operated varied from state to state. For example, we were told that Texas differed from many of the states with regard to the intrastate movement of household goods in that most carriers operated under restricted operating authorities. The operating authorities are generally radial in nature, meaning that all shipments moved by a carrier must either originate in or be destined to a specific geographic area covered by the authority, often a specified county or counties. While this type of operating authority might appear to restrict a carrier's ability to get return shipments, thus giving carriers with wider operating authority an advantage over carriers with more limited authority, many carriers have at least partially overcome the restriction by acquiring multiple authorities or by pooling authorities to form "conglomerates." Furthermore, we were told that in Texas most shipments were one way regardless of operating authority.

In Virginia, although most operating authorities are not geographically restricted, carriers are not allowed to use agents to originate intrastate shipments. As a result, unless a carrier owns facilities throughout the state, it may not book return shipments; thus intrastate shipments generally are one way. Notwithstanding the one-way nature of shipments, carriers in Virginia do offer discounted individual rates in order to obtain more DOD business.

In conclusion, there appears to be no legal impediment to the implementation of the MTMC program. Furthermore, we do not believe that restricted operating authorities should prevent the successful implementation of the MTMC program.

NEED FOR MTMC'S PROPOSED INTRASTATE RATE PROGRAM

The answer to the question of whether MTMC's intrastate rate program is needed depends on how one views need. Military household goods could continue to move without the new program. However, we believe the program would facilitate the solicitation and analysis of rates in most states. It would also introduce competition in rate setting with the potential for savings to the government in those few states where there is presently no competition.

INDUSTRY COMMENTS AND OUR EVALUATION

Moving industry representatives, in commenting on our draft report, said that adoption of the intrastate program would increase the carriers' administrative work load. They suggested that DOD solicit intrastate rates at the same time as interstate rates and use the same rate-setting procedures as the interstate program. They stated that the award of incentive tonnage (50 percent) to the initial low rate setter was unreasonable and unnecessary. They questioned application of the program in states such as Texas, where many carriers have limited operating authority.

We believe the question of whether intrastate rates could and should be solicited in conjunction with the interstate program is a matter of implementation and should be worked out between DOD and the industry. With regard to awarding incentive tonnage to the initial low rate setter, as stated on page 6 of this report, we believe that if the low rate setter was not offered incentive tonnage, carriers would have little incentive to offer their best possible rates.

In questioning the application of the program in Texas, carrier representatives asked how a situation would be handled in which a carrier who matches the initial low bidder has overlapping, but not identical, operating authority. This situation already exists at military bases in Texas. Although all carriers do business at the same tariff rate, the areas in which they can pick up shipments may differ. Personnel in the military shipping offices are aware of any peculiarities in a carrier's operating authority and offer only shipments the carrier can accept. The carrier is adversely affected only if the amount of tonnage originating within its operating area is less than that to which it would otherwise be entitled. Thus, a carrier can receive 50 percent of the tonnage handled by a shipping office only if 50 percent or more originates within the area covered by its operating authority. A carrier should consider this when submitting its rates.

One industry official, in objecting to the award of incentive tonnage, stated that the low rate setter at a large base may operate very few vans, suggesting that such a carrier would not be able to handle 50 percent of the originating shipments. He stated that competing carriers would not be able to participate in the program unless they matched the low rate. This is incorrect. Under the MTMC program the low rate setter would be offered 50 percent of available tonnage. The balance of the tonnage, plus any shipments the rate setter was unable to handle, would then be offered to other carriers who had matched the low rate. If there was insufficient capacity at the low rate to handle all of the traffic, the balance would be offered to other carriers in ascending order of their rates.

The official stated that fewer and fewer carriers were willing to participate in the program and this had radically reduced the number and quality of carriers available to shipping offices. Our analysis of carrier participation in the six states under the program from April 1, 1983, through March 31, 1985, showed that the average number of carriers per shipping office had actually increased slightly, from 5.19 to 5.49 during the period. Only one state, California, showed a decrease, from 11.32 to 10.14 carriers per shipping office. We found at those shipping offices visited that not only were there sufficient carriers available to handle the traffic, but that at most offices all of the traffic had been moved at the low rate.

In contending that the MTMC program was deteriorating, the official pointed out that five shipping offices are served by only one participating carrier, and that carriers at an increasing number of offices are not offering discounted rates, but are bidding at the 100 percent level or higher.

We found that the five offices served by only one carrier were all either very small, or served remote areas with little or no traffic. Three of the offices have never been served by more than one carrier since the beginning of the program and the other two have never had more than two carriers.

Similarly, 13 of 16 shipping offices with rates of 100 percent or more have had such high rates since the program began. We visited one of these shipping offices and found that although it is served by more than 20 carriers, all carriers bid at the 100 percent level under the MTMC program, and all carriers had offered identical individual rates before the MTMC program was introduced. We believe that rather than indicating a deterioration of the MTMC program, this indicates a long standing reluctance on the part of some carriers to participate in competitive rate setting.

ORGANIZATIONS AND INSTALLATIONS CONTACTED

Headquarters, Military Traffic Management Command, Washington, D.C.

Personal property shipping offices:

- Fort Hood, Texas
- San Antonio, Texas
- Williams AFB, Arizona
- Norton AFB, California
- Marine Corps Air Station, El Toro, California
- Naval Supply Center, Oakland, California
- Fort Ord, California
- Eglin AFB, Florida
- Naval Air Station, Pensacola, Florida
- Naval Air Station, Jacksonville, Florida
- Cameron Station, Virginia
- Fort Bragg, North Carolina
- Seymour Johnson AFB, North Carolina
- Fort Riley, Kansas
- McChord AFB, Washington
- Fort Stewart, Georgia

American Movers Conference, Arlington, Virginia

Southwest Warehouse and Transfer Association, Austin, Texas

California Moving and Storage Association, Sunnyvale, California

Florida Movers and Warehousemen's Association, Tallahassee, Florida

ENCLOSURE II

Northern Virginia Household Goods Carriers'
Association, Springfield, Virginia

Railroad Commission of Texas, Austin, Texas

Pennsylvania Public Utilities Commission

 ENCLOSURE III

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

MANPOWER,
INSTALLATIONS
AND LOGISTICS

20 SEP 1984

Mr. Frank C. Conahan
Director, National Security and
International Affairs Division
US General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to your draft proposed report "Expansion of the Military Traffic Management Command's Intrastate Rate Acquisition Program," dated August 16, 1984 (GAO Code No. 943596), OSD Case No. 6587.

The DoD has reviewed the draft report and concur as written. DoD appreciates the positive findings and share in the belief that the program is reasonable and desirable. The Department of Defense will continue to work in areas such as this to reduce the government's cost of moving DoD household goods shipments.

Sincerely,

Jerry L. Calhoun
Principal Deputy Assistant Secretary of Defense
(Manpower, Installations & Logistics)

American Movers Conference *Serving The Industry That Moves America* (703) 521-1111

GEORGE S. ROYAL
Director of Government Traffic

September 21, 1984

Mr. Frank C. Conahan
Director of National Security and
International Affairs Division
U.S. General Accouting Office
Room 4804
441 G Street, NW
Washington, DC 20548

Dear Mr. Conahan:

The American Movers Conference appreciates the opportunity you have afforded us to review the draft proposed report entitled "Expansion of the Military Traffic Management Command's Intrastate Rate Acquisition Program."

It must be said at the outset that our membership, which numbers over 1,000 and includes the major van lines and many small movers, agents, and state associations, was quite disappointed in the draft report's conclusions.

The moving industry's objections to the proposed military program can be summarized on three major points:

First, both the Government and industry should have a common interest in minimizing rules and regulations and the costly administration associated with them. The military's intrastate program unnecessarily increases the workload.

Second, the 50 percent set-aside, for the carrier who initially files the lowest rate, is entirely unreasonable and unnecessary.

Third, the military intrastate program has not addressed the unique situations created in states such as Texas where carrier operating authorities are often limited within the state.

In the interest of simplicity, the military could prescribe that intrastate rates be filed in the manner that carriers in the State of Maryland have been following for some

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years. Those carriers file intrastate rates at the same time and in the same manner and form as their interstate filings. This has minimized the time the carriers devote to the filing of rates, keeps the process in terms they understand, permits them to turn their attention back to moving household goods for the rest of the calendar year. Many of the intrastate movers are not very large enterprises. What might appear to be an insignificant increase in paperwork or manhour expenditure is really of such impact as to affect the level of service that these movers provide. The experience in California has shown that many intrastate carriers chose not to continue handling military intrastate traffic in view of the new rules and regulation. The amount of traffic to be obtained was not worth the trouble. This reduced the amount of service available to the military and reversed the desired trend towards increased competition.

The second major objection, mentioned above, is the 50 percent set-aside for the initial low rate carrier. This creates a drastic differential in the amount of traffic received by the intrastate carriers. For example, if 26 carriers serve a base, and 50 percent is given to one of them, the remaining 25 carriers will receive only two percent of the remaining traffic if they wish to continue in the program. This is an unreasonable and unnecessary differential.

A review of the interstate rate tenders submitted to the Military Traffic Management Command over the past several years should adequately show that there has been effective rate competition among carriers without the existence of a specified set-aside for the initial low rate filing carrier. There are instances at smaller installations where there is no appreciable reduction in rates. But, it should be readily apparent at those installations that the small volume of traffic does not justify significant rate reductions.

A detailed examination of the Competitive Rate Program for the military's international traffic will show that carriers did get into trouble due to the large incentive offered to the lowest rate carriers. International carriers found themselves in financial difficulty, many military household goods shipments were frustrated, and then moved to destinations at great additional expense to the Government. In addition, such carriers have gone under owing millions of dollars to the Government which cannot be recovered. The pressure to file low rates was too great. Alleged savings were offset by significant costs.

As mentioned regarding California, there is no review of the true cost of that program due to the refusal of many intrastate carriers to participate, leaving only a few carriers on file at the low rate.

ENCLOSURE IV

The State of Texas poses unique problems for which the military have not provided us with information as to how they will be accommodated under the new program.

In Texas, only three carriers have unrestricted statewide certificates. All others have limitations of varying types. Some with radial authority, for example, are limited to serving within a 50 or 75 mile radius of the point of origin. They can serve all destination points in Texas, from origin, but can only transport return loads to points within the 50 or 75 mile radius of the point of origin.

The question arises as to what rules will apply for a carrier who "me-too's" the initial low rate carrier, and they have overlapping, but not identifical, authority.

It would appear quite reasonable and prudent to develop some definitive answers for Texas carriers before requiring a final judgement on that particular area.

In conclusion, the American Movers Conference recommends that a final report on this matter by your office be delayed to permit the scheduling of a military/industry meeting, or meetings, to further pursue the possibility of establishing an intrastate program that will serve the needs of both parties.

Industry has in being a Military Affairs Advisory Panel which consists of carrier representatives of the respective national carrier associations. This panel was formed to meet with the military as representatives of the moving industry to develop rules and regulations which are mutually beneficial. While the group is formally scheduled to meet in Washington in January, May, and September each year, there is nothing to preclude additional meetings when the situation dictates. We so recommend.

We trust that you will give our proposal the most serious consideration, and please call us for any clarification or discussion.

Sincerely,

George S Royal

George S. Royal

 ENCLOSURE V

Movers' & Warehousemen's Association of America, Inc.

1001 North Highland Street
Arlington, Virginia 22201
(703) 525-4311

Government Liaison
John T. McBrayer
(301) 587-1393

September 21, 1984

Mr. Frank C. Conahan
Director of National Security and
International Affairs Division
U. S. General Accounting Office
Room 4804
441 G. Street, NW
Washington, D. C.

Dear Mr. Conahan:

Thank you for allowing us an opportunity to review and comment on the draft proposed report entitled "Expan . . of the Military Traffic Management Command's Intrastate Rat : Acquisition Program."

Movers' and Warehousemen's Association of America, Inc., is a national voluntary membership organization of more than 500 carriers, most of whom are small businesses and engaged in moving household goods in both interstate and intrastate commerce.

It is the opinion of the membership of this association that the Military Traffic Management Command's Intrastate Rate Acquisition Program is awkward, inefficient, and represents a vast amount of unnecessary administrative activity on the part of both MTMC and the moving industry for the following reasons, which we have previously recited in meetings with MTMC:

1. For decades MTMC left the matter of intrastate moving rates, and arrangements, primarily in the hands of the installation transportation officer. All the mover had to do was file with the ITO a copy of his state intrastate tariff and the ITO distributed the intrastate traffic on a basis of those rates. If, however, the induvidual carrier elected to provide intrastate service at less than his state tariff, it was required that such carrier offer such reductions through the rate section at MTMC. Few such reduced rates were filed with the exception of movers domiciled and offering intrastate services between points in the State of Maryland and Maryland's movers, in order to perform the intrastate service for the several military installations in the state, submitted rates for that service in the identical manner as did interstate movers, using as a basis of their rates from which to discount Government Rate Tenders as published by the two principal rate bureaus. It worked beautifully. And the Department of Defense was the beneficiary of attrative rate reductions.

Let me interpose here the statement that, as at this time, and including the rate cycle running from November 1, 1984 through April 30, 1985, this same system is being used in the State of

ENCLOSURE V

Maryland, the only difference being that DOD's Rate Solicitation 4-2 is being used as a base from which to discount rather than the rate bureaus' Government Rate Tenders due to the fact that the DOD has declined to make use of the Government Rate Tenders. The only change in Rate Solicitation 84-2 is that the word "intrastate" has been inserted in lieu of "interstate" to satisfy a provision in the solicitation that it has application to interstate traffic only. The system calls for an Increase/Decrease filing period each six months, and allows all carriers filing such Increase/Decrease rates to file what is generally called a "Me-Too" rate later on, competitive with other I/D rates that have been filed. Participation by the competing carriers is for a share in 100% of the traffic involved, not just 50%. The competitive rates filed for the Maryland DOD traffic in the upcoming cycle is 70% of the packing rate and 60% of the transportation rate. These should be very attrative rates from the point of view of the Department of Defense.I should add that there has never been economic regulation of intrastate moving in Maryland.

2. Approximately 3 years ago when there was a "sunsetting" of the Florida state laws regulating for hire transporation, Military Traffic Management Command developed the idea of a Government Rate Solicitation format for use in that State, and it is from this action that the system under review has developed and been placed into effect in several additional states. The program is not needed and never was. In Florida, and later in the other states now involved, MTMC could have set up the very same system in use in the State of Maryland. The carriers involved were familiar with it. They were filing the rates interstate, or acting as local booking agents for carriers who filed such rates. The same time frames could have been used, as is the case in Maryland. Certainly the installation ITO's were familiar with the system. It might not have been a popular program in some states, as intrastate carriers naturally would have preferred to remain with the old system of filing their state tariffs with the ITO. And as a matter of fact, MTMC could have applied it progressively, as necessary,in much the same manner in which they have placed into effect their Intrastate Rate Solicitation program. This Association recommended such action. It would have made it unnecessary to do these things:

(a) Set up a separate filing system and separate program, operating on differing time frames and making additional filings necessary before the dust settled from a prior rate filing process.

(b) Allowed intrastate movers to make use of tariffs with which they were fimiliar, causing greater ease of bill of lading preparations, billing, and related matters.

(c) With the changeover from Government Rate Tenders to DOD Rate Soliciatation formats, one change only would have been involved with the benefits described.

ENCLOSURE V

3. The greater objection on the part of intrastate movers to the DOD's program is that it makes use of a system that movers simply do not like, and for good reason. It allows the low rate setter to benefit from setting the low rate by offering that carrier 50% of the total traffic, with the remainder of the carriers serving the installation limited to dividing up the other half. Objections to this are chiefly as follows:

(a) The low bidder may actually operate only a very few vans, perhaps only 1. An award of 50% of the traffic at a large base to such a bidder is almost ludicrous. But competing carriers must meet the rate or forego participation. Experience (the Maryland example) has indicated the this manner of seeking to obtain low rates is not at all needed for obtaining adequate service at reduced rates.

(b) Experience has shown that many carriers are unwilling to set up a program for participation in such small amounts of traffic, with the result that fewer and fewer carriers are partticipating. This can and is radically reducing the number and quality of carriers available to the installation transportation officer. At 5 installations where the system is in effect, there currently is only 1 participating bidder. (If a carrier does not bid in the I/D period, he may not compete for the remaining 50%). At 8 additional bases, less than 4 carriers are participating. At 16 of the installations (25%) bid rates are at or above a 100% level. (See attached rate sheets for these installations).

(c) At an increasing number of installations movers are looking on the system as so unsatisfactory that they are holding their rates to 100% and above of the DOD Rate Solicitation. Presently, rates at and in excess of 100% are in effect at 17 installations. (See attached copies).

The program even though limited to a few states, is deterriorating and we believe that it will and should continue to do so, for the simple reason that it isn't a good way to acquire intrastate rates and services. The market will adjust itsself if left to the forces of normal competition as demonstrated by the Maryland experience.

(d) There are installations where no service at all has been available, and the move had to be performed by pack and crate contractors.

This association asks that these considerations be taken into account as this matter is examined further. We will be glad to participate in such further examination, if such participation might be helpful.

Sincerely,

John T. McBrayer
Government Liaison Officer

ENCLOSURE VI

NMSA

NATIONAL MOVING AND STORAGE ASSOCIATION

"Over 60 Years of Service to the Moving and Storage Industry"

T. Peter Ruane
President

September 22, 1984

Mr. Frank C. Conahan, Director
National Security and International
Affairs Division
United States General Accounting Office
Washington, D.C. 20548

RE: Draft of a Proposed Report
"Expansion of the Military Traffic Management Command's Intrastate Rate Acquisition Program."

Department of Defense

Dear Sir:

We appreciate receiving copies of the subject draft report for our review and comment.

Our present comments will address but one aspect of the program. This should not be interpreted as endorsement by this Association of all other conclusions contained in the report.

We suggest that the awarding of 50 percent of the tonnage to the low bidder would prove to be defeating to the overall objective of the MTMC program, that is, to provide a quality service for the military member.

Although we have no quarrel with the promotion of competition, the awarding of 50 percent to the low rate initiator will discourage "me-toos" and possibly reduce the number of carriers who are willing to participate at all.

Take a hypothetical situation. Assume that 51 carriers are active participants. A low bid is entered and awarded 50 percent of the traffic for that state. Then assume that all carriers then "me too." Each of these would realize (assuming perfect traffic distribution) 1/50 of 50 percent or 1 percent of the state's traffic. We suggest that in most instances this would not provide much motivation for a carrier to bid at all.

This could reduce the capacity available to MTMC. As the report indicates, carriers are active in commercial business, et.al. A carrier is either a "player" or is not. Each carrier represents a given amount of capacity

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designated for the program. If the total dedicated capacity is too low, a surge of traffic can not be accomodated. Neither can the failure of the low-bid initiator to perform be compensated for by the remainder of active participants.

This program cannot rely on the rapid adjustments possible in a truly free market. Administratively, reaction to the market is limited to given periods of time. Lack of capacity can not be corrected over night.

In summary, the reward to a low bid initiator should not remove the motivation for other carriers to participate.

Sincerely,

T. Peter Ruane

T. Peter Ruane
President

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