



**Before the
U.S. House of Representatives
Transportation and Infrastructure Committee
Subcommittee on Highways and Transit**

**Statement of Michael S. Card
on behalf of the
American Trucking Associations, Inc. (ATA)**

***Rising Diesel Fuel Costs in the Trucking Industry*
May 6, 2008**

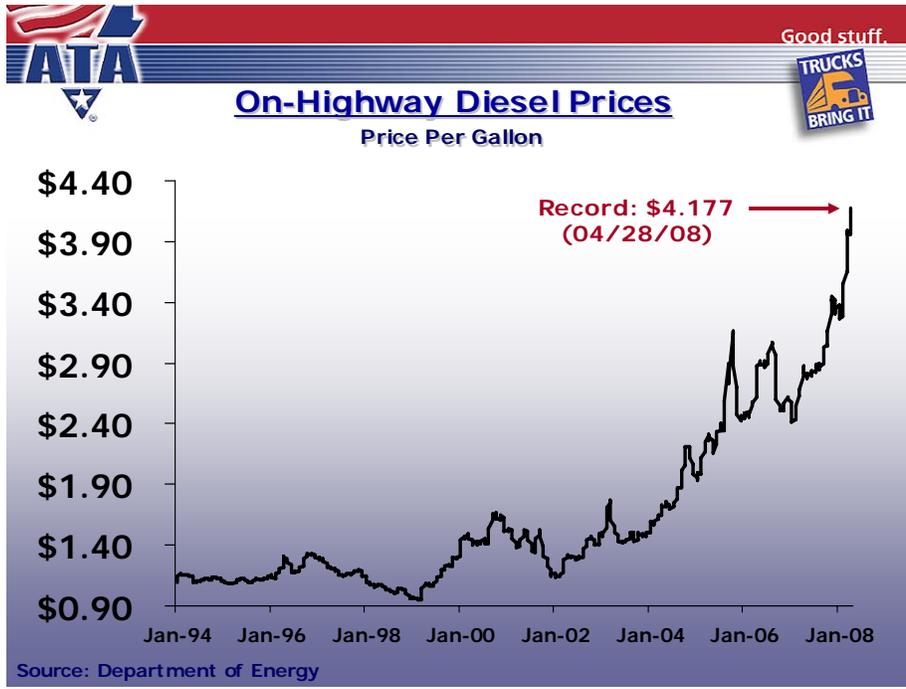
Mr. Chairman and Members of the Subcommittee:

My name is Mike Card; I am the President of Combined Transport, a family-owned and operated trucking company headquartered in Central Point, Oregon. My family built and grew this business over the past 50 years and today we operate more than 400 trucks and employ over 500 individuals. As a trucking company, we are dependent on a plentiful supply of diesel fuel. In fact, our company purchases approximately 25,000 gallons of diesel fuel daily to ensure that our trucks are able to deliver freight to our customers. Last year, Combined Transport spent approximately \$ 17.3 million on diesel fuel and this year we expect to spend more than \$ 21.7 million on diesel. This dramatic 26% year-over-year increase in the cost of diesel fuel is harmful to the trucking industry and the U.S. economy.

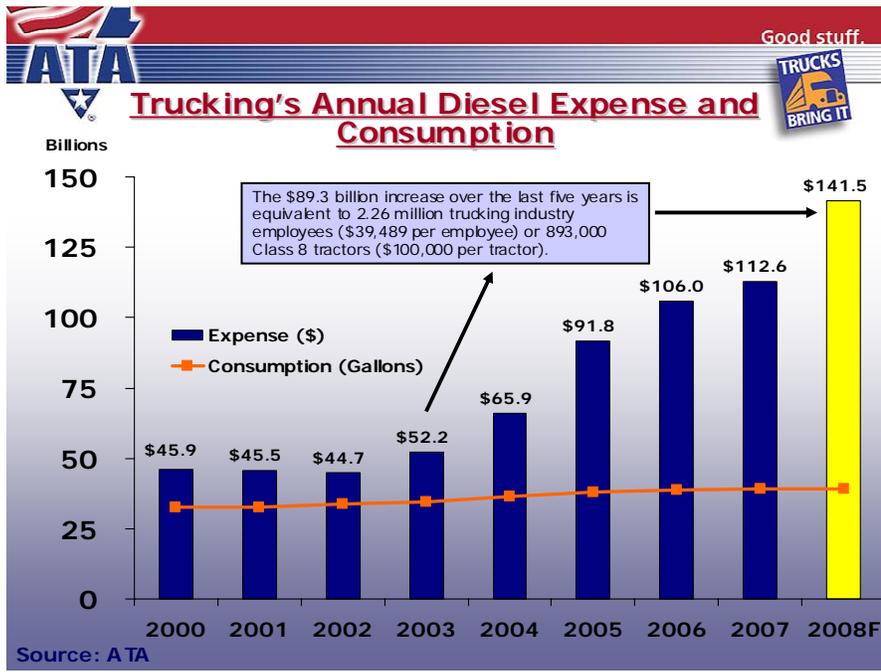
Today, I appear before you representing not just my company, but also the American Trucking Associations (ATA). I am proud to serve as a State Vice President of the ATA and a member of its Executive Committee and Board of Directors. ATA is the national trade association of the trucking industry. Through its affiliated state trucking associations, affiliated conferences and other organizations, ATA represents more than 37,000 trucking companies throughout the United States.

The trucking industry is the backbone of this nation's economy accounting for more than 80% of the nation's freight bill with nearly 9 million hard-working Americans working in trucking-related jobs. The trucking industry delivers virtually all of the consumer goods in the United States. We are an extremely competitive industry comprised largely of small businesses. Roughly 96% of all interstate motor carriers operate 20 or fewer trucks.

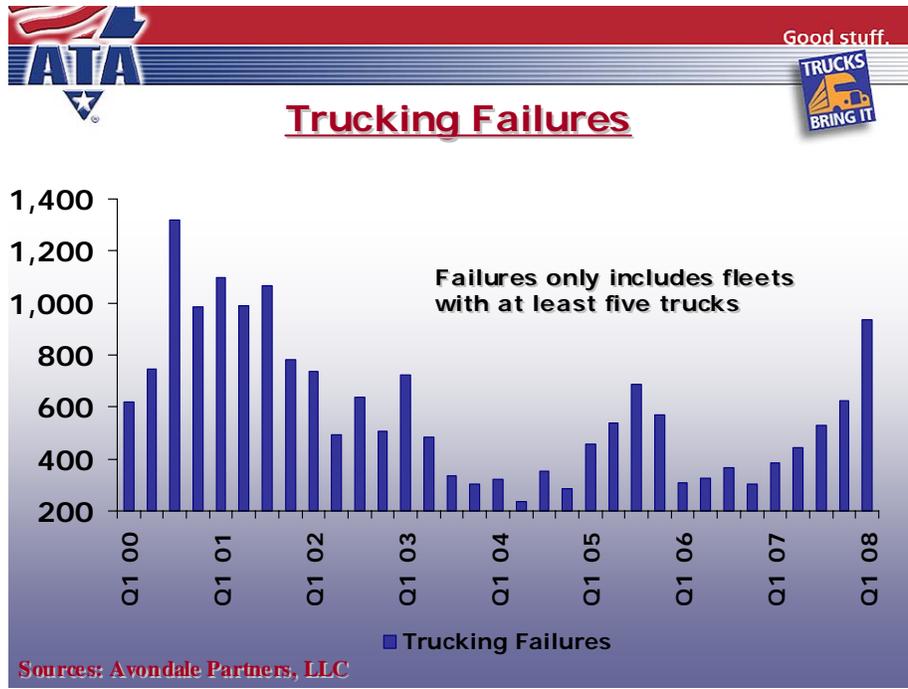
Diesel fuel is the lifeblood of the trucking industry. Each year, the trucking industry consumes over 39 billion gallons of diesel fuel. This means that a one-cent increase in the average price of diesel costs the trucking industry an additional \$391 million in fuel expenses. The average national price of diesel fuel is now over \$4.17 per gallon, which is nearly \$1.40 more than just one year ago.



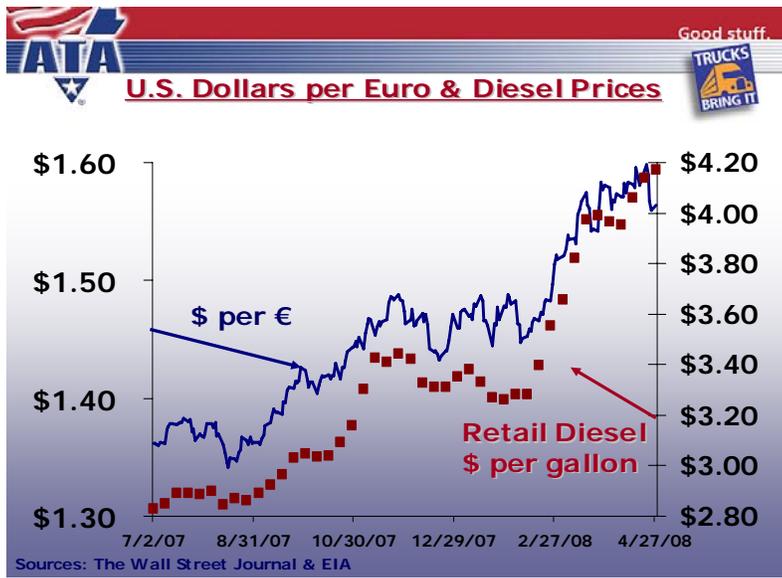
The trucking industry is on pace to spend an incredible \$141.5 billion on fuel this year. This is \$29 billion more than we spent in 2007, and more than double the amount we spent just four years ago.



Today it costs approximately \$1,200 to refuel a truck. As a result of this dramatic increase in the price of diesel, which has coincided with a downturn in the economy and a softening of the demand for freight transportation services, many trucking companies are struggling to survive. In the first quarter of 2008, 935 trucking companies with at least five trucks failed. This was the largest number of trucking related failures since the third quarter of 2001. It is very likely that a large number of companies that operate fewer than 5 trucks also have turned in their keys during the first quarter of this year.



This hardship surprises few in the industry. For most truckers, fuel has surpassed labor as their largest operating expense. Over the past five years, total industry consumption of diesel fuel has gone up 15 percent, while the price of diesel has nearly tripled during the same time period. There is no single cause for the spike in crude oil and diesel prices; however, one of the major factors is the weakness in the U.S. dollar. Since roughly 60 percent of the price of diesel fuel is the price of crude oil, as the dollar has weakened, crude prices have jumped translating into higher diesel prices as well.



Trucking is a highly competitive industry with very low profit margins. This explains why many trucking companies are reporting that higher fuel prices have greatly suppressed profits, if they are making a profit at all. Our industry can't simply absorb this rapid increase in fuel costs. We must pass some of these costs through to our customers, which ultimately translate into higher prices on the store shelves. So not only do high fuel prices devastate truckers, but their customers as well, many of which are mom-and-pop stores. Ultimately, the consumer is forced to pay higher prices for food, clothing and other basic necessities.

Against this backdrop, we greatly appreciate the opportunity to discuss actions that Congress can take to help address the soaring price of diesel fuel.

A. Recommendations to Reduce Demand

Reducing the nation's consumption of diesel fuel will reduce the overall demand for petroleum and should result in lower prices for petroleum products.

1. Control Speed. The typical heavy-duty diesel truck travels between 5 and 7 miles on a gallon of diesel, depending upon load, route, equipment and drivers' skill. Speed has a direct correlation to fuel consumption. In fact, for each mile per hour that a truck travels in excess of 65 mph, its fuel economy decreases by 1/10 of a mile per gallon. Thus, a truck traveling at 65 mph that is capable of achieving 6 miles per gallon, will achieve only 5 miles per gallon when traveling at 75 mph. For this reason, ATA recommends that Congress establish a national speed limit of 65 mph for all vehicles. Of course, to achieve the maximum benefit of this policy, the federal government will need to partner with States to ensure strict enforcement of the 65 mph speed limit.

ATA also has petitioned the Administration to require that all new trucks be equipped with factory-installed devices that electronically limit the truck's maximum speed to 68 mph. In addition to the fuel conservation benefit from ensuring that trucks do not exceed this speed, we are confident that this measure will further reduce the number of truck-related fatalities that occur on our nation's roadways.

2. Reduce Main Engine Idling. Truck drivers idle their trucks out of necessity. The Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) *Hours-of-Service* regulations require mandatory rest periods. As the driver rests in the truck's sleeper compartment, he/she will often need to cool or heat the cab to rest comfortably. In extremely cold weather, truck drivers also will idle their engines to prevent the engine block from freezing. Argonne National Laboratory estimates that the average long-haul truck idles for 1,830 hours per year. With hundreds of thousands of these trucks on the road, idling has a significant impact on fuel consumption and the environment. The U.S. Environmental Protection Agency (EPA) estimates that idling trucks consume approximately 1.1 billion gallons of diesel fuel annually.

Many options are currently available to reduce engine idling. Auxiliary power units (APUs) are among the most popular choices in anti-idling equipment providing climate control (heating and cooling), engine preheating, battery charging, and power for household accessories without use of the truck's main engine. APUs have been proven by the Federal Highway Administration to save up to one gallon of fuel per hour of idling and to substantially reduce emissions and greenhouse gases.

More than 30 states, counties, or cities have adopted regulations limiting the amount of time a commercial vehicle can idle. While reducing main engine idling is a laudable goal, three major barriers stand in the way of trucking companies purchasing such equipment for their daily use: (1) the failure to grant exceptions for the additional weight associated with anti-idling equipment, (2) the imposition of a federal excise tax on the purchase of such devices, and (3) the actual cost of the devices themselves.

Since idling reduction equipment can add weight to a truck, many fleets do not want to reduce their cargo capacity to compensate for the installation of idle reduction equipment on a truck. To address this concern, Congress authorized a 400-pound weight exemption for trucks equipped with idle reduction equipment under Section 756 of the *Energy Policy Act of 2005*. While Congress' intent was to mandate this exemption, the Federal Highway Administration (FHWA) has determined that states "may" adopt the exemption on a voluntary basis. FHWA's interpretation of the weight exemption gives states the option of whether to allow the exemption or not. To date, seven states have passed legislation recognizing the 400-pound weight tolerance and a handful of states are exercising enforcement discretion. ATA asks Congress to clarify the 400-pound weight exemption as being applicable to idling reduction equipment nationwide.

A recent IRS interpretation applies the Federal Excise Tax (FET) to the purchase of idle reduction equipment, which has increased the cost of this equipment and consequently reduced consumer demand for these proven anti-idling solutions. The 12

percent tax acts as a disincentive to truckers looking to reduce main engine idling. FET makes the acquisition of APUs financially less attractive and beyond the reach of potential buyers. The tax alone for a large fleet looking to buy 1,000 APUs at a typical retail price of \$9,000 is over \$1 million. Taxing devices that offer truckers a solution to reduce fuel consumption and diesel emissions clearly sends the wrong message to the nation. By taxing APUs, we are doing a great disservice to both our economy and the environment. To address these disincentives, ATA asks congress to amend Section 4051 of Internal Revenue Code to make idling reduction equipment purchases exempt from FET. This action will increase demand for the introduction of idling reduction equipment, thereby ensuring greater anti-idling compliance, higher fuel savings, and a cleaner environment.

While APUs are a proven alternative to main engine idling, most trucking companies just cannot afford purchasing devices that can cost up to \$10,000 per unit. ATA is seeking financial incentives from Congress in the way of tax credits or grants to expedite the introduction of idling reduction equipment across the Nation.

3. Address Congestion and Highway Infrastructure. Americans waste a tremendous amount of fuel sitting in traffic. According to the most recent report on congestion from the Texas Transportation Institute, in 2005, drivers in metropolitan areas wasted 4.2 billion hours sitting in traffic. These congestion delays consumed 2.9 billion gallons of fuel. ATA estimates that if congestion in these areas was ended, 32.2 million tons of carbon would be eliminated and, over a 10-year period, nearly 32 billion gallons of fuel would be saved, reducing carbon emissions by 314 million tons. ATA recommends that Congress invest in a new congestion reduction program to eliminate major traffic bottlenecks, with a specific focus on bottlenecks that have the greatest impact on truck traffic.

4. Fully Fund EPA's SmartWaysm Program. In February 2004, the freight industry and EPA jointly unveiled the SmartWaysm Transport Partnership, a collaborative voluntary program designed to increase the energy efficiency and energy security of our country while significantly reducing air pollution and greenhouse gases. The program, patterned after the highly-successful Energy Star program developed by EPA and DOE, creates strong market-based incentives that challenge companies shipping products and freight operations to improve their environmental performance and improve their fuel efficiencies. To become a partner a fleet must commit to reduce fuel consumption through the use of EPA-verified equipment, additives, or programs. By 2012, the SmartWaysm program aims to save between 3.3 and 6.6 billion gallons of diesel fuel per year. EPA predicts SmartWaysm participants will also reduce their annual greenhouse gas emissions by 48 million tons of CO₂ equivalents. SmartWaysm is one voluntary greenhouse gas program that not only works, but exceeds expectations.

The trucking industry has fully embraced SmartWaysm and relies upon the innovativeness of this cutting edge program. However, while the program is growing by leaps and bounds, future funding remains uncertain. While ATA and other freight and shipping sectors continue to work towards ensuring a separate line item in future EPA

appropriations for SmartWaysm, we are troubled with the FY08 funding cuts to the program. More specifically, total monies allocated to the program this year dropped from roughly \$3 million in FY07 to \$2 million in FY08. Funding cuts to grants, contracting, marketing, technology development, and other program expenses have severely undermined the mission of the program. It is our hope that EPA will redirect an additional \$1 million from the Climate Protection Program under the FY08 budget to ensure the continued growth and success of this remarkable program. Given that the Energy Star program's annual operating budget is \$50 million, we also ask that Congress provide a line item appropriation to ensure that SmartWaysm is adequately funded in the future.

5. Enhance Truck Productivity. By reducing the number of trucks needed to move the nation's freight, the trucking industry can lower our fuel consumption, which would produce significant environmental benefits. More productive equipment - where it is consistent with highway and bridge design and maintenance of safety standards - is an additional tool that should be available to states. A recent study by the American Transportation Research Institute found that use of these vehicles could reduce fuel usage by up to 39%, with similar reductions in criteria and greenhouse gas emissions. The reduction in truck vehicle miles traveled on highways such as the New York Thruway, Massachusetts Turnpike, Florida Turnpike, and on roads throughout the Western United States, has lowered the amount of fuel burned in these states. These examples of responsible governance could be replicated by other states if given the necessary flexibility under federal law.

6. Regulate Petroleum Exchanges. Balancing the need for an efficient petroleum market with the desire to limit petroleum speculation could help burst the bubble that has formed in the petroleum markets. Congress should consider the merits of expanding government oversight of electronic petroleum exchanges to make it less attractive for hedge funds to speculate on petroleum prices, while ensuring that a robust market exists for legitimate purposes.

B. Recommendations to Increase Supply.

In addition to reducing consumption and lessening the demand for petroleum, we need to focus on increasing our supply of crude oil.

1. Increase Domestic Exploration. ATA believes that increasing our domestic supply of crude oil will help lower diesel fuel prices. To achieve this goal we need to begin environmentally responsible exploration for crude oil in the Arctic National Wildlife Reserve and Outer Continental Shelf. We also must begin developing the oil shale and tar sands resources in Colorado, Utah and Wyoming and eliminating the barriers to utilizing coal-to-liquid technologies to exploit our vast domestic coal resources. The technology exists to ensure that these resources are developed in a manner that protects the environment. The debate over whether to drill in these areas of the United States has been ongoing for decades. In light of geopolitical instability, the

growing demand for energy from Asia and Europe, and new drilling techniques to ensure that environmentally-sensitive areas remain protected and carbon emissions are sequestered, it is time to change these policies and develop these critical domestic resources.

2. Increase Domestic Refining Capacity. For years now it has been apparent that the U.S. has underinvested in refining capacity. Regardless of the reason for this underinvestment (e.g., environmental restrictions or economic factors), it is time to reverse this trend.

To help expand U.S. refining capacity, ATA has asked that EPA streamline its permitting process to facilitate refinery expansions and new refinery construction. Congress also should consider enacting incentives to encourage increased domestic refinery capacity.

3. Enact a Sensible Approach to Renewable Fuels. The United States needs to enact a more sensible approach to the use of alternative fuels such as biodiesel. The voluntary use of high quality biodiesel in low percentage blends may be an acceptable means of extending the Nation's diesel fuel supply. But biodiesel producers must improve the quality of their product. A recent DOE study showed that 10% of the biodiesel produced last year did not meet the quality specifications recommended by diesel engine manufacturers. This off-spec product causes motor carriers to bear increased maintenance and repair costs or worse could strand a truck on the side of the road, preventing the timely delivery of freight and potentially endangering the truck driver's health.

The economics of biodiesel also are a concern. When Congress first began considering the renewable fuel standard. Soybean oil, the primary feedstock for biodiesel, was about 25 cents per pound, and after application of the \$1 federal tax credit for biodiesel blending, the decision to use biodiesel was economically neutral. Today, however, soybean oil is trading at 56 cents per pound, the cost of producing biodiesel has jumped to \$4.69 per gallon and the \$1 per gallon biodiesel tax credit is scheduled to expire at the end of the year. We note that beginning next year the federal biodiesel mandate contained within the renewable fuel standard (RFS) will require the use of 500 million gallons of biodiesel. At current economic levels and without the extension of the biodiesel tax subsidy, this aspect of the RFS amounts to a hidden tax on the trucking industry and other diesel consumers.

Before leaving the discussion of the economics of biodiesel, I would like to mention ATA's support for Congress' efforts to close the splash and dash loophole. We believe that the American public would be outraged if they knew that their tax dollars were being spent to subsidize biodiesel that is ultimately exported for sale outside the U.S. Beginning next year the Congressionally-mandated biodiesel standard will require U.S. companies to consume 500 million gallons of biodiesel. This number jumps to a billion gallons in 2012. For this reason, we do not believe that we should create an

incentive to export subsidized biodiesel, which will drive up the price of this mandated alternative fuel for U.S. consumers.

4. One National Diesel Fuel Standard. While gasoline moves people, diesel fuel moves our economy. Due to the uniquely interstate nature of diesel fuel, ATA believes that Congress should take extraordinary steps to ensure that no state enacts a boutique diesel fuel mandate. Today, California and Texas require special boutique diesel fuel blends. These unique blends cost more to produce and prevent diesel fuel from simply being transported from one jurisdiction to another in times of shortage. In addition, boutique fuels are typically produced by only a handful of refineries, which results in less competition, higher refining margins, and ultimately higher fuel prices.

While Congress took steps to curb the proliferation of boutique fuels as part of the Energy Policy Act of 2005, the Act created a loophole for states seeking to enact renewable fuel mandates. To date, five states have enacted biodiesel mandates and several others are considering this course of action. In light of the federal requirement to use biodiesel, which begins next year, we believe that Congress must preempt state biodiesel mandates. These duplicative state mandates are not needed to ensure a strong domestic biodiesel industry and will simply create an economic environment where biodiesel producers can charge extraordinarily high prices for their product – insulated from the checks and balances of a competitive market. These state mandates will have an adverse impact on the trucking industry and consumers that depend upon trucks to deliver food, clothing, and virtually every other consumable good.

5. The Strategic Petroleum Reserve. ATA has previously asked the federal government to temporarily stop filling the strategic petroleum reserve (SPR) and consider releasing oil from the SPR to address this fuel crisis. The U.S. currently deposits 70,000 barrels of crude oil into the SPR each day. The SPR currently stores just over 700 million barrels of crude oil, which is equivalent to a 58-day supply of imported oil for our nation or a 9 day supply of the oil consumed globally. While we know that the SPR does not contain enough oil to permanently alter the supply of crude oil in the market place, we believe that strategic releases from the SPR could temporarily increase the supply of crude oil and hopefully help restore rational behavior to the petroleum markets. This type of government intervention could drive speculators out of the market and help ensure that petroleum prices are once again driven by supply and demand.

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ATA and Combined Transport appreciate this opportunity to offer our insight into measures that the country should take to help address the high cost of petroleum products.