



**Before the
U.S. House of Representatives
Select Committee on Energy Independence and Global Warming**

**Statement of Dave Berry
on behalf of the
American Trucking Associations, Inc. (ATA)**

Pumping Up Prices – The Strategic Petroleum Reserve and Record Gas Prices

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Mr. Chairman and Members of the Committee:

My name is Dave Berry; I am the Vice President of Swift Transportation, a large truckload carrier headquartered in Phoenix, Arizona. Swift operates more than 18,000 thousand trucks and employs more than 21,500 thousand individuals. As a trucking company, Swift is dependent on a plentiful supply of diesel fuel. In fact, Swift purchases several hundred thousand gallons of diesel fuel daily to ensure that our trucks are able to deliver freight to our customers. Last year, during the first quarter Swift spent about \$2.37 per gallon for diesel fuel and this year first quarter we spent about \$3.37 per gallon. This dramatic 42% year-over-year increase in the cost of diesel fuel is harmful to Swift and devastating to the U.S. economy. I must add that yesterday the average price for diesel was \$4.14.

Today, I appear before you representing not just Swift, but also the entire U.S. trucking industry. I am proud to serve as the Chairman of the American Trucking Associations Environmental and Energy Policy Committee. 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 these United States.

The trucking industry is the backbone of this nation's economy accounting for more than 80% of the nation's freight bill and employing more than 8.5 million hard-working Americans. 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 annually. The average national price of diesel fuel is now \$4.14 per gallon, nearly double what it cost in 2004. Based on current Department of Energy forecasts, the trucking industry will be forced to spend an incredible \$141.5 billion on fuel this year. This is \$29 billion more than in 2007, and more than double the amount we spent 4 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.

Against this backdrop, we greatly appreciate the opportunity to discuss the Strategic Petroleum Reserve (SPR) and other initiatives that could help address the speculative bubble that has materialized in the petroleum markets. The remainder of my statement highlights actions we believe that Congress can take to help restore balance to the petroleum markets, increase supplies of petroleum and lower the demand for petroleum. We are confident that these initiatives will help reduce the price of diesel fuel, which has been damaging to the trucking industry and consumers.

A. 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 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.

The U.S. currently deposits 70,000 barrels of crude oil into the SPR each day. Suspending the filling of the SPR will reduce the global demand for oil and could help lower its price.

ATA also has asked the Administration to release oil from the SPR. 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.

We acknowledge that the rules governing the management of the SPR are the subject of an international agreement with other developed nations. This agreement limits our ability to use the SPR to address market irregularities and may be an issue that Congress should further investigate.

We believe that temporarily halting the filling of the SPR and releasing oil from the SPR could have a positive impact on the speculative nature of today's petroleum prices. We recognize, however, that this step in and of itself will not address the long

term petroleum pricing issues. The remainder of this statement discusses additional measures that should be taken to increase supply and reduce consumption of petroleum, which we believe will have a more profound impact on the price of petroleum products, including diesel fuel.

B. Recommendations to Increase Supply.

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; however, 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 are also a concern. When Congress first began considering the renewable fuel standard. Soy bean 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, soy bean oil is trading at 60 cents per pound and the cost of producing biodiesel has jumped to \$4.88. Even considering the \$1 per gallon blending credit, which incidentally is due to expire at the end of this year, the current cost of producing biodiesel is an incredible \$4.35 per gallon. This price does not include the cost of transporting biodiesel to market from the areas where it is produced. For this reason, the trucking industry cannot afford to use biodiesel today. 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, this aspect of the RFS amounts to a direct hidden tax on the trucking industry of approximately \$245 million. We also note that this increase in fuel cost does not include the increase in maintenance costs required by biodiesel use or the fuel economy penalty that biodiesel use portends.

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, 5 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 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 goods.

C. Recommendations to Reduce Demand

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

1. Controlling 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 accelerating to 75 mph. For this reason, ATA has called upon Congress to 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 fatalities that occur on our nation's roadways.

2. Reducing Idling. The trucking industry consumes a significant amount of fuel idling its trucks. Idling can take various forms, the most obvious being when trucks are stopped in congested metropolitan areas during peak drive periods. Less obvious is the idling of trucks equipped with sleeper compartments to operate heating and cooling devices that permit comfortable sleep and other rest periods. Proven technologies now exist to reduce fuel consumption from main engine idling. Unfortunately, these technologies are expensive and many trucking companies cannot afford the initial capital expenditures necessary to purchase and install these devices. For this reason, ATA has asked Congress to waive the federal excise tax on idle reduction systems and to provide tax credits to trucking companies that purchase anti-idling equipment. We also would like Congress to clarify that the 400-pound weight exemption that was included for these devices are accepted in all jurisdictions within the United States.

3. SmartWaysm In February 2004, the freight industry and EPA jointly unveiled the SmartWaysm Transport Partnership (SmartWaysm), 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 the EPA consider redirecting 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.

4. Regulation of 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 investigate the impact of requiring increased margin limits on petroleum traders that do not take delivery of product, and implementing maximum position limits for traders. These actions could make it less attractive for hedge funds to trade petroleum, while ensuring that a robust market exists for legitimate purposes.

5. Price Gouging. The federal government, working with the state attorneys general, can help to ensure that fuel price gouging, such as we witnessed following the hurricane disasters on the Gulf Coast in 2003, do not recur in these critical times. We have already had sporadic complaints from our members of price gouging, and a resumption of such criminal activity can only further damage an already-stressed industry. As we understand it, price gouging is not a federal offense, and state laws against the practice vary widely, with differing penalties and different definitions of the underlying offense. In these circumstances, we ask the Congress to consider making price gouging a federal crime. If they are properly armed with good law, the vigilance of law enforcement officials, coupled with the will to prosecute offenders, may make a great deal of difference in keeping the fuel market free of distortion. In making this recommendation, we note the importance of properly defining the term price gouging in order to ensure that petroleum marketers may continue to sell fuel during times of shortage without risk of being held criminally liable.

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

Appendix

1. What impacts are high diesel and energy prices having on the trucking industry? How are those impacts passed along to other areas of our economy and American consumers?

Rising fuel costs are having a huge impact on the trucking industry. For many motor carriers, fuel is now equal to labor as the highest expense; and for some carriers, fuel has surpassed labor as their largest expense.

Because trucks haul 70 percent of all freight tonnage, and 80 percent of communities receive their goods exclusively by truck, rising fuel costs have the potential to increase the cost of everything that is transported by truck. This is extremely significant since trucks haul virtually all consumer goods.

The trucking industry is extremely competitive and operates on very low profit margins, so it is easy to see why many trucking companies are reporting that higher fuel prices have greatly suppressed profits, if they are making a profit at all. The trucking industry cannot absorb these dramatic fuel price increases and these costs ultimately show up on the grocery shelves and on the store shelves.

The trucking industry spent over \$112 billion on fuel in 2007, and we're on pace to spend \$141.5 billion in 2008 – a record high. That's up from \$106 billion in 2006. In 2007, the industry's diesel expenditures were about equal to the entire New Zealand economy. Additionally, at \$112.6 billion, the industry's diesel bill was 9 percent larger than the entire Kuwaiti economy, the 6th largest oil exporter in the world.

2. What impacts might we see on the trucking industry, American consumers and our economy this summer if diesel and energy prices continue to rise?

If diesel and energy prices continue to rise, we'll see more and more carriers going out of business. In fact, we're already seeing that. The number of trucking companies going out of business has climbed for five consecutive quarters, hitting 935 in the first quarter of 2008, which is the highest number of failures in a quarter since the third quarter of 2001. These bankruptcy statistics only include companies with at least five trucks; therefore, it is likely that many more carriers have gone under since smaller carriers are more susceptible to failure.

As the price of diesel skyrockets, it not only devastates 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 and other basic necessities.

We are very concerned that out-of-control energy prices will greatly magnify our current economic slowdown and delay our economic recovery. If households have to spend their forthcoming tax rebate checks on energy, the stimulus will be significantly limited. Undoubtedly, higher energy prices act as a tax on households.

3. How could temporarily suspending the fill of the SPR affect the price of oil, gasoline and diesel fuel?

While we know that the amount of oil being placed in the SPR is relatively small compared to total U.S. consumption, we believe that a small increase in the supply of crude oil would signal a willingness to address the speculative bubble that has been created and could 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 driven by supply and demand.

4. How would providing immediate relief from high prices by temporarily suspending the fill of the SPR affect the trucking industry and American consumers?

If in fact suspending the fill rate of the SPR were to bring oil prices down, the trucking industry, as well as the overall economy, would benefit directly. Just a one-penny decrease in the price of diesel annualized over an entire year would save the trucking industry an additional \$391 million a year.