Testimony of

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Regarding

THE AMERICAN ENERGY INITIATIVE:
A FOCUS ON RISING GAS PRICES.

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Good morning Chairman Whitfield, Ranking Member Rush, and distinguished members of the Subcommittee. Thank you for inviting me to testify on matters which are extremely important to our nation's small business trucking professionals and professional truck drivers.

My name is Chris Milburn, and I am a member of the Owner-Operator Independent Drivers Association (OOIDA). I live in Hilliard, Ohio and have been a professional truck driver for the past seven years. After twelve years in law enforcement as a deputy sheriff, in 2004, I started in the trucking industry, focusing on fleet management. In 2008, became a full-time trucker, and I currently own my own truck and am leased on to a motor carrier where I spend most of my time hauling retail merchandise.

As you are most likely aware, OOIDA is the national trade association representing the interests of independent owner-operators and professional drivers on all issues that affect small-business truckers. The approximately 150,000 members of OOIDA are small business men and women in all 50 states who collectively own and operate more than 200,000 individual heavy-duty trucks.

The majority of the trucking community in this country is made up of small businesses, as 93 percent of all carriers have 20 or fewer trucks in their fleet and 78 percent of carriers have fleets of just six or fewer trucks. In fact, one-truck motor carriers represent nearly half of the total number of motor carriers operating in the United States.

I have been asked to come here today to speak on behalf of OOIDA and my fellow professional drivers about the impact that high fuel prices are having on the trucking industry, especially small business truckers like me who personally experience the costs of high fuel prices every day when we fill up our trucks and take to the road. Unlike many industries around the country, the trucking industry is not made up of a small number of major entities who can spread increased fuel costs across their business units; for a large part of the trucking community, when a trucking company pays for fuel, it comes out of the operator's pocket.

Sadly, the impact of fuel prices on the livelihoods of truckers is a story we have told to Capitol Hill many times before. Today, as before, the rising cost of fuel – especially coming so early in the year and just as some areas of the country are seeing economic improvements – is increasing the challenges faced by small business truckers.

It is important to note that these price increases do not occur in isolation. Over the past few years, the trucking industry has been laboring under a steadily increasing amount of regulations from the Department of Transportation, the Department of Homeland Security, and the Environmental Protection Agency. While there is certainly a need for sensible regulation, trucking – especially small business trucking – has been assaulted by a barrage of unnecessary and costly regulation which, when coupled with the rising cost of fuel, are certain to force some small business truckers to park their vehicles. Unfortunately, the answer for many in government to the challenge fuel prices present to truckers is more regulation – instead of common-sense actions like expanding access to American energy.

On behalf of America's small business truckers, I thank the Subcommittee for this opportunity to highlight some actions that OOIDA feels would address the challenges facing our industry from high fuel prices. We recognize that this problem will not be fixed overnight, but steps can be taken now that will have a real impact to small business truckers.

How High Fuel Prices Impact Small Business Truckers

When thinking about how high fuel prices impact the trucking industry, it is easy to think just in the terms of how the largest motor carriers with many trucks in their fleets are impacted. However, while a high fuel bill for one of these mega-carriers may have an impact on their stock price, the impact of a high fuel bill on small business truckers cuts far closer to home.

Just last Monday, the national average for highway diesel fuel jumped to over $4 per gallon, an increase of 33 cents over 2011. To give you some perspective, the average OOIDA member runs their truck over 100,000 miles each year while getting generally somewhere between five to seven miles per gallon depending upon their operation. Most of us will be operating long haul trucks equipped with either twin 135-gallon tanks or twin 150-gallon tanks, so we can easily see a bill of over $1,000 when we fill up. At $4.00 per gallon, our annual fuel costs can be well over $80,000. Whenever the price of a gallon of diesel fuel increases by a nickel, a trucker's annual costs increase by $1,000. Such price increases result in an enormous extra burden on the small business trucker whose average annual income is approximately $40,000.

Trucking is a hyper competitive business and each of us operates on extremely thin margins. Many leased operators like me are paid by the mile, yet the formulas used to calculate our paid mileage is not based on real miles traveled; they are based upon "Household Movers Mileage," a system first started in the 1930s that survives to this day despite accurate systems of calculating true mileage driven. What this means for me practically is that I am not paid for all the miles I actually drive, which makes cost recovery that much more difficult.

For example, in January I drove 10,843 miles, yet I was only directly paid for 9,645 miles, a difference of just less than 1,200 miles. With my truck, it takes 184 gallons of fuel to drive those 1,200 miles, and with January diesel prices averaging around $3.83, that is a difference of $704 in fuel expenses that I was not directly compensated for.

There is no guarantee that the rate I am paid will cover the full cost of hauling the load. This is an even greater problem for independent owner-operators who may not see the full value of any fuel surcharge added on to their basic freight rate. Additional challenges can come as truckers wait for the payment from a shipper to make its way through the freight broker before it shows up in their bank account. Many truckers purchase fuel on credit, and if they do not have the funds to pay for a previous load's fuel bill, then they cannot purchase fuel for future loads. This structure makes trucking in the era of price spikes extremely risky, especially for small business truckers.

What does this risk mean? Extra dollars spent on fuel means fewer dollars available to put into my business. Countless truckers over the years have felt the pain of high fuel prices on their business. Business expansions have been canceled, truck payments have been missed, and entire trucking companies have gone bankrupt due to the impact that high fuel costs have had on small business motor carriers. Yes, fuel is an expense that can be written off for tax purposes and our industry does have a system of fuel surcharges in place, but when price spikes come suddenly the impact of those structures is significantly reduced, leaving the trucker feeling the full weight of the price increase.

For many small business truckers, business income and family income are basically one in the same. Even if a small business trucker is able to keep their business afloat during times of high fuel prices, money is not going towards things that are important to their family, meaning missed vacations, less savings for their children's college education, or late mortgage payments. And unlike the majority of Americans, most small business truckers do not have unemployment insurance to fall back on should we go out of business.

Like all businesses, small business truckers prefer predictability. We like to have predictable loads, predictable weather conditions and traffic, and most of all, predictable fuel prices. Price spikes, which seem to be occurring more frequently as world political and economic instability continues, can have especially devastating impacts on truckers, with a few months of high prices taking trucking companies from a position of profitability to a position of bankruptcy.

The price of fuel is something that small business truckers are acutely sensitive to because of the almost immediate and far reaching impact it has on their business and family bottom lines. For that reason, OOIDA has long supported a set of energy policies focused on addressing the impact of higher fuel prices on small business trucker. In fact, OOIDA was founded in 1973 as a result the Arab oil embargoes that literally shut down the trucking industry and nearly crippled the nation. OOIDA's President, Jim Johnston and several other founding members traveled to Washington, DC to present the problems of the trucking industry and common-sense energy solutions before lawmakers. Last spring, the OOIDA Board of Directors updated these solutions as "Principles to Address High Diesel Fuel Prices Impacting Truckers," and I will outline some of these solutions below.

Bringing Back the Relief Valve of Domestic Energy

In the past, domestic energy production has helped mitigate price spikes based on international conditions. It has, in many ways, served as a relief valve ensuring that short term price increases are mitigated and do not have devastating impacts on the trucking industry.

While it is good news that overall domestic energy production is up, we are concerned that, according to recent reports, energy production on federal lands and waters, which contain some of our most plentiful energy supplies, are actually down from the last year by greater than ten percent. With prices this high, truckers like me find it difficult to understand why regulatory and other roadblocks remain to accessing these important American energy resources.

OOIDA supports actions taken by the House last month when it passed important legislation to expand offshore and onshore energy production here in the United States. This legislation represents a common-sense effort to knock down regulatory barriers preventing environmentally sound energy production in places like the Gulf of Mexico and the Mountain West. This will benefit the trucking industry in two ways: 1) by expanding energy by allowing the development of these resources to move forward, and 2) the drilling and refining of these resources must be supported by the trucking industry, as trucks are needed to haul important equipment and supplies.

Additionally, given the myriad of regulations and regulators that small business truckers face, we empathize with small energy producers as they look to locate and develop new sources of energy. Much like truckers, these small producers often operate drilling lease to drilling lease and do not have large international operations to leverage against should government delays slow down their progress. In developing the reforms to the Department of the Interior's energy development process, Congress and the Administration should focus on ensuring that regulatory requirements will achieve their desired intent and not simply add new requirements to industry for the sake of adding requirements. We in the trucking industry have experienced such actions first hand, so we speak from experience.

The Importance of a Comprehensive Approach

Because decreased energy production from federal lands and waters has weakened the relief valve protecting against massive energy price spikes, truckers have felt the pain of what often becomes an irrational market situation, with high amounts of speculation driving up the price of fuel higher and higher.

OOIDA supports efforts to expand transparency of energy trades, and is glad that the Commodity Futures Trading Commission moved forward on these long-delayed rules. However, it is important that we have a variety of approaches to address energy price spikes, as a comprehensive approach will have the best chance of having true success.

The impact of price spikes on trucking goes beyond the time a trucker spends filling up his or her tanks at a truck stop. Seventy percent of our nation's freight – consumer and industrial goods alike – is moved by truck. If companies and consumers are spending more money on energy, that means they are spending less on the things I haul, giving me fewer opportunities to work. Trucking has seen significant challenges over the past few years as industrial and consumer demand has decreased or remained flat. While things are picking up, high energy prices have the ability to significantly hurt our emerging economic recovery.

My time at a truck stop is a perfect example of the impact of energy price spikes on the broader economy. For a trucker, a truck stop is much more than just a place to fuel up. They are where we get our truck washed and where we obtain most of our food and various supplies for the road – just like you might stop at a grocery store tonight on the way home. Those services and extras are how truck stops stay in business, so when folks like me decide not to spend the money on something like getting our truck washed because we are spending more on fuel, it has an impact on that truck stop, which then has an impact on the local economy, and so on.

Because of the important role that trucking plays in our nation's overall economy, OOIDA also supports efforts to prepare the industry to move to future energy sources. While some may tout the advantages of biofuels, truckers have significant concerns about these fuels, both from a practical operating aspect and from the significant incentives provided to this industry. We are, however, very interested in the increased focus by many towards natural gas and applaud what appears to be growing bipartisan support for the role this fuel can have in powering vehicles, especially local delivery and heavy-duty long haul trucks. Our nation, including my home state of Ohio, has significant natural gas reserves.

Reducing congestion and improving our highways also has an impact on fuel use by truckers. We applaud both the House and Senate for their attention and focus on new surface transportation legislation that will dedicate more dollars back to maintaining and improving our roads and bridges. Trucking provides nearly 40 percent of the revenues for the Highway Trust Fund, and it is important to dedicate as many of those dollars back to our highways as possible.

Increasing the Regulatory Burdens on Truckers: The Wrong Approach

While the solutions to our energy challenges are by no means easy, to truckers like me they are pretty common sense. Unfortunately, instead of making the correct decision, the federal government has followed a path that we in the trucking community are very familiar with – taking the easy route of increasing the regulatory burdens on the trucking industry.

Last September, the Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) finalized the first-ever greenhouse gas and fuel efficiency rules of heavy-duty trucks. This regulation came after a decade of EPA regulations on diesel engine particulate and NO_X emissions that have added an additional $30,000 to $50,000 to the price of a new truck while at same time actually reducing fuel efficiency for these vehicles.

These new regulations will, according to agency estimates, add at least an additional $6,200 to the price of a new truck starting in 2014. The experience of OOIDA and others in the trucking industry is that the real price increases related to regulations are significantly higher (EPA underestimated the cost increases of diesel engine regulations during the 2000s by a factor of 2 to 5). While the agencies state that the average trucker will save tens of thousands of dollars in fuel because of these regulations, there are two significant problems with that argument, problems that significantly undercut the argument for these regulations, especially as the end-all, be-all solution to high fuel prices faced by truckers:

1. Not All Motor Carrier Operations Will See Fuel Cost Savings, Yet All Motor Carriers Will Face the Increased Cost of Regulation

As noted above, the agencies claim significant fuel costs savings from these regulations – given the nature of the trucking industry, such a claim is highly suspect and is bordering on little more than junk science. There are over 500,000 motor carriers in the United States, each with their own business model running on varied terrain and hauling varied cargo. For many of these operations, there is no way the mandates instituted under the regulation will result in any true fuel savings, yet the only new trucks available after 2014 will be those that comply with the regulation and they will be priced accordingly.

For example, a significant portion of the owner-operator community in the United States focus on what is known in the industry as "heavy-haul" operations, where they move oversized and overweight loads that require special equipment and special permits. These are the folks who haul cargo such as equipment for the oil and gas industry, construction and farming equipment, turbines, blades, and towers for wind turbines, and equipment for our nation's armed forces.

These loads are extremely heavy, extremely large, or both, meaning that any potential fuel savings from methods such as changing truck aerodynamics, speed limiters, or special tires will be lost because the load is either so heavy or so large that significant amounts of fuel will be used simply due to the laws of physics. Despite this fact, these one-size-fits-all regulations will force motor carriers to purchase trucks that EPA says will save them vast amounts of fuel when the trucker behind the wheel knows that all these regulations mean is that a new truck is more expensive, and thus further out of reach.

2. The High Cost of Regulation Will Keep Many Motor Carriers from Purchasing New Trucks

OOIDA and its members do not dispute that many of the technologies covered under the EPA's Heavy-Duty Truck Rule will result in fuel savings for specific trucking operations.

Indeed, since the agencies' sole outreach to the trucking industry was to major motor carriers focused on transporting goods from distribution center to distribution center along major highways, these regulations do prescribe add-ons that lead to fuel savings in that type of operation. That is why small and large motor carriers focused on these types of operations have been incorporating these technologies to save fuel, all without any government mandate or regulation.

As highlighted above, if truckers don't drive in a fuel efficient manner, they will drive themselves out of business, as fuel expenses can be 50 percent or more of a truck operator's total revenue before other expenses like truck payments, insurance, maintenance, and taxes. Despite the significant market forces in play, the EPA feels that truckers cannot figure out how to reduce fuel use and costs on their own without the government showing them the way through new regulatory mandates.

For truckers, these regulatory mandates are not free. There is a cumulative cost of these regulations plus a decade's worth of diesel emission regulations, and potential new mandates from the Department of Transportation. All of these new regulatory mandates are pushing the cost of a new truck higher and higher, placing that purchase far out of the reach of all but the largest carriers and most successful owner-operators.

This leads to significantly reduced environmental benefits from the regulation, putting truckers at risk of being put into a never-ending cycle: Regulations are implemented by Washington, but they do not achieve the anticipated results in improving fuel economy; Washington decides that further regulations are necessary, driving the price of new trucks even higher; this new round of regulation also does not achieve Washington's goals, putting truckers at the mercy of a constantly repeating record. The irony in this situation is that a major reason for the reduction in truck fuel economy during the 2000s was the diesel emissions regulations mandated by EPA increased fuel use by 5-9 percent. Truckers are being forced by EPA to pay extra to potentially regain fuel economy that previous EPA regulations took from them.

Conclusion

Mr. Chairman and members of the Subcommittee, small business truckers are the front line in feeling the impact of energy price spikes like those we are experiencing today. As these high prices continue into the spring and summer, truckers will feel the pain and for some, the costs will become too great.

As professional drivers, we see the impact of high fuel prices every day. Unfortunately, today's high fuel costs are only adding to the challenges imposed upon the industry from numerous, costly government regulations. These challenges not only rob small business truckers of the ability to maintain and grow their business, but also decrease the incomes of hundreds of thousands of families around the country. OOIDA looks forward to working with this Subcommittee and the entire Congress to find solutions to our nation's energy challenges while reducing burdensome regulations on small business truckers.

Thank you for the opportunity to testify today on this important topic, and I look forward to answering any questions from the Subcommittee.