The National Association of Small Trucking Companies
104 Stuart Drive * Hendersonville, Tennessee 37075
800-264-8580 Fax: 615-451-0041
www.nastc.com

David Owen
President

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“Retail Gas Prices, Part 1: Consumer Effect.”

Good Morning

My name is David Owen and I'm the President of The National Association of Small Trucking Companies (NASTC, Inc.).

I feel privileged and honored to be here today. I am certainly humbled to be representing our niche group of carriers and, to some extent, the entire trucking industry regarding the topic at hand. I hope that some value can come from my testimony.

NASTC, Inc. was founded in 1989 and our mission statement then and today is as follows:

> **"NASTC is dedicated to helping small trucking companies control their costs through managed purchasing, analysis, consultation, and advocacy. Our ultimate mission is to level the competitive playing field, allowing our member-companies to grow, prosper, and remain a significant force in the transportation industry."**

We have stayed focused to that mission over the past eighteen years and have grown to an organization of significant size serving our niche market. We have approximately 2,200 member-carriers in our group and we add between thirty and fifty companies each month. This group at present employs approximately 50,000 drivers and operates approximately 47,000 tractors.

Our niche market is identified with the following characteristics:

- -Small in size (generally from 1 to 100 power units)
- -Full truckload (not LTL)
- -Rural based
- -Family owned
- -Non-union
- -For hire (very few "private" carriers)
- -Long haul (generally averaging over 500 miles from pick-up to delivery)

NASTC has developed a wide array of programs to assist its members in their efforts to be viable, competitive companies. Some of these programs include the following:

- Safety Programs
  - -Drug & Alcohol Administration
  - -PrePass & PrePass Plus
  - -Professional Drivers Advantage
  - -Time access to motor vehicle records (MVR's) and background checks
  - -The Bill Fralic Safety Library
  - -Driver Plus Audio Magazine Program
  - -Drivers of the Year Program
- Compliance Programs
  - -Fuel Taxes
  - -Driver Qualification file maintenance
  - -Log Audits

Educational Programs
- -NASTC's Annual Conference & Expo
- -Drug & Alcohol Training
- -New Entrant Survival Training
- -Quarterly Newsletters

Discount Purchasing Programs
- -J. J. Keller & Associates
- -Office Depot
- -Sprint/Nextel Communications
- -Quality Plus Fuel Program

NASTC used the following logic to appeal to its very fragmented membership base:

-Small companies (under 100 power units) comprise 95% of the carriers and 40% of the capacity of the full truckload segment of our industry.

-Large or small, the basic function of a trucking company remains the same.

-Large companies enjoy discounts, rebates, economies of scale and lower costs generally not available to smaller entities. The difference in price cannot be justified by volume alone.

-Small companies owners wear several hats, performing many different functions. Due to lack of specialization, time, capital, and expertise, attention to detail is often sacrificed.

-Small company owners are dedicated to safety, compliance, employee relations, and profit, and will respond favorably to programs that provide assistance in reaching goals in these areas.

There is background information about who NASTC is and who we represent for the record and this will not be a part of my testimony.

When asked to be here today, my contact referred to this meeting as an investigation into the exorbitant and insistent rise in gas prices. With all due respect, I would like to point out that the proper title for this meeting should read <u>FUEL</u> prices. I'm going to be addressing diesel fuel prices not gasoline prices, and I think it's important to stress the difference. If I can be so bold, I think there is a wealth of misunderstanding about our industry and the main purpose of my testimony today will be an attempt to help "connect the dots" between perception and reality concerning the driving public's attitudes, beliefs, and understanding of commercial vehicles and the role they and the people who drive them play in our distribution system and our economic well being.

People who purchase gasoline have many options available to them when fuel prices skyrocket. They can:

-Drive less
-Car pool

-Use other means of transportation
-Take less trips
-Buy a hybrid car

Trucking companies have few such options. They must buy fuel daily at the prices put forth because they <u>must run</u>. Our members generally operate a fairly simple business model. They leave on Sunday night or Monday morning and return on Friday afternoon for the football game. The driver recreates, rests, and spends family time while the truck is available for preventive maintenance and readied for the next week's trips. The truck and the driver need to run many miles, to run loaded, and to be as productive as possible during that Monday through Friday work-week. Our drivers and trucks will generally run between 550 to 700 miles a day. They generally get between 5.5 to 6.5 miles per gallon and will buy close to 100 gallons of diesel fuel daily.

Recently there have been movements to "go on strike," slow down, or take trucking holidays to protest the exorbitant price of diesel. These movements bring to the surface the tremendous frustration felt by our industry at all levels because of the perceived malaise of the general public, the government, and their regulatory agencies regarding the "back to the wall," between a rock and a hard place position diesel fuel prices put a truck.

If you're a small trucking company, you have only two choices:

You can close your doors and go do something else

Or,

You can continue to run your truck, often at a <u>loss</u> and if you can't find a way to operate profitably, go broke slowly.

What is not an option is to participate in a stoppage.

Here's why:

If you choose to park trucks to protest fuel costs, your drivers who are paid by the mile will not have a paycheck. There is a driver shortage and a good driver can find a company to drive for in 30 minutes.

So, first you lose your drivers.

Then, if you decide to park trucks, what about your customer who can't get his product delivered—he finds someone else to <u>haul it</u>.

So, then you lose your freight.

Then, your truck isn't producing revenue, so you can't make your truck payment, so you lose your truck.

Trucks must run!

My father during WWII worked for the railroad. He was <u>FROZEN</u> on his job with the railroad for four years because his job was deemed essential to the war effort. Truck drivers and trucking companies are virtually frozen to their jobs because of their essential role in our distribution system. Look around this room. There are thousands of items in view. Every one of them without exception was on one or more trucks before it got here.

Until about a year and a half ago, the driver was the biggest cost factor in trucking. Since then, the cost of fuel has far surpassed the cost of the driver and in some cases is twice that of the driver. Through the collection of fuel surcharges the industry has creatively found a way to survive $4.00 per gallon diesel but the economic pain only begins there. It starts with the independent owner/operator (one guy, one truck & trailer) who can't hedge fuel, who can't enjoy volume discounts, who depends more on brokered freight, and who can't always collect a fuel surcharge. These are the guys who are crippled first with fuel costs. Then come the small trucking companies, our members, who can't stop running without going out of business. And, on up the supply chain the pain goes to the shipper, the manufacturer, and ultimately, to you and me, the consumer.

I would like to point out here that people in the transportation industry (one out of every 11 who work in the U.S.) get the dubious pleasure of feeling the pain twice—once with fuel costs, and then again at the cash register when they purchase the goods they hauled.

It's not just about fuel! The increased price of diesel fuel has a multiplier effect in that it pushes up the price of everything that is transported—which is everything you see in this room.

There are plenty of explanations and plenty of blame to go around. I admit that I've included for the record an explanation of why diesel fuel would be about $1.00 per gallon cheaper today had the EPA not mandated low sulfur diesel and then ultra low sulfur diesel.

A story that is not politically correct at present because it appears to be "anti-green" is the ultimate huge price tag the trucking industry and ultimately, the American public is paying and will continue to pay for cleaner air.

1993—Class 8 trucks ran on DIESEL #2, a by-product of the refinery process. So when a gallon of regular gasoline was refined, Diesel #2 spilled out without much cost much like kerosene and heating oil. This resulted in DIESEL #2 being about 15% cheaper than regular gasoline. DIESEL #2 emitted 5,000 parts per 1,000,000 of sulfur particulate.

1994—The EPA mandated that class 8 trucks begin using LOW SULFUR DIESEL. This was a refined product, not a by-product, and as a result the price of DIESEL moved up to compare with that of regular gasoline—an approximate 15% increase in cost relative to gasoline. This LOW SULFUR DIESEL emitted 500 parts per 1,000,000 of sulfur, so it was 10 times cleaner than DIESEL #2.

2003—The EPA mandated that class 8 trucks operate on ULTRA LOW SULFUR DIESEL that must be refined twice much like higher octane gasoline and the price of diesel increased to about 25% higher than regular gasoline (today's gas in Nashville was $3.50 and diesel was $4.14). ULTRA LOW SULFUR DIESEL emits 15 parts per 1,000,000 of sulfur.

Conclusion: If class 8 trucks were still running on DIESEL #2, the price at the pump for commercial vehicles would be at least $1.00 per gallon lower than it is today.

Now, I'm not saying that cleaner air isn't a worthwhile objective, and I'm not saying that the move to LOW SULFUR by the EPA in 1994 was a bad move. I am saying that the move in 2003 to ULTRA LOW SULFUR DIESEL was OVERKILL and that the full economic impact of this move was not well thought out.

The price of "ULTRA" clean air is huge when the escalated added cost of diesel is passed up through the supply chain from the independent trucker, the small trucking companies, the larger trucking companies, to the shipper, to the manufacturer, and ultimately to the CONSUMER. All of us are paying more for EVERYTHING because of this decision.

Suffice it to say there is no doubt that the EPA who projected $2.75 per gallon diesel through 2008 missed that projection and that they grossly underestimated the economic impact of ultra low sulfur fuel. I think some of this relates back to that lack of understanding of trucking or that failure to "connect the dots" that I alluded to earlier. After all these new café standards were put in place by the same person who supported legislation to limit class 8 truck traffic to only interstate highways in her state while she was governor. I don't have any idea how she thought goods would actually be delivered to market from interstate exit ramps.

We have heard all the political/economic explanations for high fuel prices and I'm sure all of them have some validity. Some that I've heard include the following:

- **Increased demand by China, India, and other developing nations**
- **The move to a global market**
- **The weakness of the dollar**
- **Lack of refinery capacity**
- **The ability of hedge-fund operators to manipulate the market**
- **The war in Iraq**
- **Unrest in the Middle East**
- **Profiteering by "Big Oil"**
- **Failure to become less dependent on OPEC and foreign oil**
- **The policies of the Bush Administration**
- **The policies of the Clinton Administration**
- **Failure to tap resources in Alaska and other domestic locales**

I can pretty well tell you who hasn't been the culprit in the high cost of fuel at the pump, that's the <u>retailer.</u>

Our Quality Plus Network of fuel stops is comprised of 840 truck stops across the country where our companies enjoy the advantages of volume purchasing power for

diesel. Our main network chain, Travel Centers of America (TA) has posted $140,000,000 in losses the past two quarters. It may be difficult to understand or believe, but with diesel fuel, AS PRICES GO UP, MARGINS GO DOWN and, conversely, WHEN PRICES GO DOWN, MARGINS GO UP. The continued upward pressure of fuel prices has seriously threatened the profitability of many truck stops over the past few years.

What's worse than $4.00 diesel?

What's worse than $7.00 diesel?

-Not being able to purchase diesel fuel at all!

Our most vulnerable supply chain in the U.S. today is the supply chain from our refineries to our distribution system. If the pipeline and the trucks that haul fuel were shut down for a week our distribution system would come to a halt and our country would be brought to its knees.

Some hope or help for the future with suggestions.

1. **The SmartWay Program developed by EPA**

2. **The development and implementation of Auxiliary Power Units (APU's) to decrease idling time. In our market, drivers must sleep in their sleeper units which <u>require</u> eight to ten hours of idling time per day. This isn't fuel friendly or ecologically friendly. APU's allow the driver to get his sleeper berth rest without the truck running. I would love to see tax credits for APU's and a national standardization of idling laws.**

3. **The suggested moratorium on fuel taxes, though many argue that it would not necessarily get down to the consumer in <u>GAS</u> prices, it most certainly would get down to the consumer immediately in diesel fuel purchases.**

4. **Some sort of over-sight that prohibits states from selling or leasing interstate highways to the private sector.**

5. **Escalated research and development of hybrid, energy-efficient operating systems for trucks.**

6. **Some semblance of central oversight on interstate commerce that can't be trumped by a hodge-podge of state laws that complicate and restrict the movement of goods and people across state lines.**

Thank you again for the opportunity to speak. I'll be at your service now for any questions you might have.