Committee on Resources

Witness Statement

Testimony of Walter B. McCormick, Jr.
President & CEO of the American Trucking Associations (ATA)
Before the House Committee on Resources
Oversight Hearing on Domestic Oil and Gas Exploration and Production
April 12, 2000

Mr. Chairman, members of the committee, I am Walter McCormick, President and CEO of the American Trucking Associations. On behalf of the nation's responsible motor carriers, I want to thank you for the invitation to be here and for holding this hearing.

I can tell you from the first-hand accounts that have poured into my office that the current high diesel fuel prices are devastating the trucking industry. We have seen a clear example of the frustration around the country with the recent truck rallies here in our nation's capital. They were put together by a group of those who are being forced out of business.

Mr. Chairman, skyrocketing diesel prices -- and the lack of a long-term national strategy to address them -- are a significant threat not only to the American trucking industry, but also to the U.S. economy as a whole.

Trucking represents 5% of the gross domestic product. Today, more than 70% of America's communities rely ***solely*** on trucks to deliver their goods. Runaway diesel prices are the soft underbelly of the U.S. economy. They make our country's economic future vulnerable. Simply put, if trucking breaks down, so does this historic expansion.

Current Situation

While prices have dropped over the last few weeks, they remain excessively high. Last week, the national average retail diesel fuel price was $1.44. Prices peaked at $1.50 in mid-March, the highest price ever since the Energy Department started collecting data. That price was a 50% increase over last year. So you can see that a six-cent decline doesn't give the trucking industry much relief. Earlier this year, the crisis was concentrated in the Northeast; now it has spread to all regions of the country. This underscores the need for a ***national*** strategy, and like you, Mr. Chairman, I do believe that the long-term strategy must include a greater focus on increased domestic oil production and less reliance on foreign imports.

There are several factors behind today's high prices: First, OPEC cut oil production. Current oil stocks are down 15% from last year. A few weeks ago, crude consistently closed over $30 a barrel for nearly a month. It is currently hovering around $26 a barrel.

Industry Impact

At this point, I'd like to answer the most frequent question I get from folks outside the trucking industry. They ask: If trucks move so much of the economy, why don't they do what any business has to do and just

absorb the higher prices or pass them along to the customer?

That question gets to the bottom of this debate, so I'd like to address it head-on. First, we did just that in 1999 as prices began to rise. But when prices ran out of control, we knew we had to speak up or shut down. A key reason trucking is the dominant mode of transportation in this country is because it is affordable. We are affordable because of razor-thin profit margins of about three percent. If that margin moves even slightly, many in the trucking industry are forced out of business. Most trucking companies can't afford to absorb higher diesel costs and in a highly competitive market, they can't raise prices.

Itemize the vulnerabilities of trucking companies, and you'll find that fuel is the Achilles heel. It is second only to labor in direct costs. To give some perspective, on average across the country earlier this year, it cost truckers $150 more each time they filled up compared to a year ago. Today, it is $110 more. With shippers objecting to fuel surcharges, often the choice is haul at a loss or pull over and shut down.

Potential Impact on the U.S. Economy

Mr. Chairman, you are well aware of the many challenges facing the trucking industry. Even before this situation, the trucking industry was straining the limits of its capacity to meet the shipping demands of a booming economy. We are struggling with an acute driver shortage as we find ways to entice young people to a life on the road.

With the crisis at the pump, many carriers are rapidly burning through their cash reserves. Others are seeing their operating ratios approach 100 - translation: no profit, none. If carriers are forced to either limit their runs or shut down their rigs, there won't be a way to pick up and move all the freight. And, as you know, trucking is what brings the goods to our doors and our stores. The other modes of transportation, which are also bearing the brunt of high fuel prices, can't help. If we start to see bottlenecks, shippers who today object to a fuel surcharge will have to scramble to get their freight delivered at any cost. It's easy to see where that leads: Consumer prices rise and inflation snuffs out our country's economic expansion. It's a quick, short path to inflation.

Today's Crisis Can Be Easily Fixed

Mr. Chairman, I'm here to convey the economic challenges of working men and women who mean a great deal to this country. I make their case for one simple reason: today's crisis can be easily fixed.

On March 28 of this year, OPEC agreed to increase production quotas to 1.45 million additional barrels per day. The current world shortfall is roughly 2.5 million barrels a day. This is a step in the right direction, but it appears that this production will not be sufficient to reduce the current world deficit. Demand still far exceeds supply, and OPEC continues to pursue a policy of forced scarcity that threatens our economy.

One thing to keep in mind is that petroleum product prices are very fungible. We heard about one driver who filled up the tank on one side of his truck at one price, then walked around to the other side to find the price had gone up 15 cents. Clearly, pricing at the retail level is not 100% based on the drop-for-drop cost of a barrel of crude. The release of fuel from the Strategic Petroleum Reserve would have an immediate impact at the pump. Some say it will take weeks to help. Not true. The market is very efficient. It will ***react*** and react ***quickly*** to future prices, immediately easing the pain at the pump.

I think it's also important that Congress ask the Attorney General of the United States to commence an

investigation into any illegal diesel price gouging and ensure that profiteers are not taking advantage of cash-strapped truckers.

To speak for a moment directly to the subject of this hearing, while there is credible scientific research being done on the fuels of the future, diesel is and will be the fuel that drives this country for decades to come. Mr. Chairman, I know that you understand the importance of a continued flow of oil, and that your interest in opening the Arctic National Wildlife Refuge to production, in an environmentally sound fashion, is due, in part, to your concern over our dependence on foreign oil. The same concerns hold true for other potential areas of discovery, including parcels in the Outer Continental Shelf and under other lands held by the federal government for the people of the United States.

Mr. Chairman, the ability of trucking to keep consumer costs down has been a driving force behind this economic expansion. It's something the industry is very proud of. We don't want to see this booming economy bust. Unfortunately, it is a real possibility if we can't put the brakes on this crisis at the pump and prevent its recurrence should the price decreases that the Energy Department now anticipates fail to occur.

I want to thank you, Mr. Chairman, and the members of this Committee, for your leadership on this issue and for raising the vital subject of domestic oil and gas exploration and production. I would be happy to take any questions you may have.

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