



**Before the  
Senate Committee on Environment and Public Works**

**Statement of Ray Kuntz, Chairman & CEO  
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1500 Blaine Street  
Helena, MT 59601  
on behalf of the  
American Trucking Associations, Inc. (ATA)**

***“Transportation’s Role in Climate Change and Reducing Greenhouse Gases”***

**July 14, 2009**

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to present testimony on *Transportation’s Role in Climate Change and Reducing Greenhouse Gases*. My name is Ray Kuntz. I serve as the Chairman and CEO of Watkins and Shepard Trucking based in Helena, Montana, and founded in 1974. Watkins and Shepard Trucking offers truck freight hauling throughout the U.S. from 20 terminals and arranges intermodal transportation which involves hauling freight by multiple methods such as road and rail. My trucking company is also proud to be an EPA SmartWay<sup>SM</sup> participant, a collaborative, voluntary federal program for the freight sector designed to improve energy efficiency and energy security in our country while significantly reducing greenhouse gas (GHG) emissions. As a SmartWay<sup>SM</sup> partner, Watkins and Shepard has reduced its fuel use and corresponding carbon emissions by 14 percent and has been recognized by EPA with a SmartWay<sup>SM</sup> Excellence Award for our exceptional performance in GHG reductions and environmental stewardship efforts.

Today, I appear before you representing not just my company, but also the American Trucking Associations (ATA) headquartered in Arlington, Virginia. I currently serve as Chairman of ATA’s Executive Committee and I am the Immediate Past Chairman of ATA.

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 members throughout the U.S.

**Overview of the Trucking Industry**

With more than 600,000 interstate motor carriers in the U.S., the trucking industry is the driving force behind the nation’s economy. Trucks haul nearly every consumer good at some point in the supply chain. Few Americans realize that trucks deliver nearly

70 percent of all freight tonnage or that 80 percent of the nation's communities receive their goods exclusively by truck. Even fewer are aware of the significant employment, personal income, and tax revenue generated by the motor carrier industry.

Nearly 9 million people employed in the trucking industry move approximately 11 billion tons of freight annually across the nation. Trucking annually generates \$660 billion in revenues and represents roughly 5 percent of our nation's Gross Domestic Product. One out of every 13 people working in the private sector in the U.S. is employed in a trucking-related job ranging across the manufacturing, retail, public utility, construction, service, transportation, mining, and agricultural sectors. Of those employed in private-sector trucking-related jobs, 3.5 million are truck drivers.

The trucking industry is composed of both large national enterprises as well as a host of small businesses, all of whom operate in extremely competitive business environments with narrow profit margins. Roughly 96 percent of motor carriers have 20 or fewer trucks and are considered small businesses.

ATA strongly supports efforts to reduce GHG emissions and to make this country more energy independent. We want our industry to be as green and fuel efficient as possible. Yet our industry faces unique challenges in its attempt to reduce carbon emissions. These challenges include funding our nation's highway infrastructure needs to address mounting congestion and introducing new technologies and fuel that preserve the trucking industry's ability to efficiently deliver virtually all of our country's consumer goods. These hurdles have the potential to add considerable cost and complications to the movement of goods in this country.

## **Trucking Industry Concerns Over Climate Change Legislation**

### **A. Increased Fuel Costs**

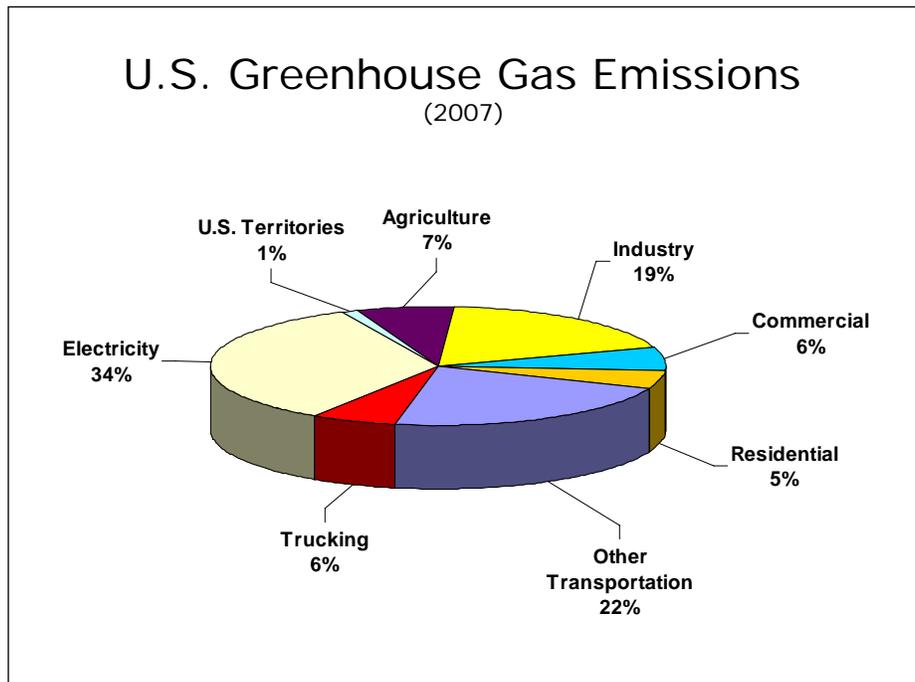
The trucking industry is concerned that climate change legislation will significantly increase the price of fuel we consume. Numerous experts have indicated that climate change legislation will dramatically increase the price of transportation fuels. One major petroleum supplier to the trucking industry has advised that fuel costs could rise by up to 77 cents per gallon for gasoline and 88 cents for diesel fuel. Fleets are extremely sensitive to rapidly shifting operating costs given thin operating margins of between 2-4 percent.

These low profit margins continue to be chipped away given the numerous and unprecedented costs being imposed upon the industry to reduce emissions from trucks. For instance, new diesel engine emission standards imposed by the U.S. Environmental Protection Agency (EPA) in 2002 drove up engine costs on average between \$3,000 to \$5,000 while decreasing fuel economy between 6-8 percent. EPA diesel engine emission standards in 2007 drove up the cost of engines between \$8,000 to \$10,000 and decreased fuel economy an additional 2-4 percent. Diesel engine emission standards set to take effect in 2010 could again increase new engine costs up to \$10,000. However, we hope to experience a reversal of downward fuel economy trends with the introduction of these new engine technologies.

To illustrate the significance of these reductions and the progress being made to produce today's near-zero diesel engine emissions, every 60 new trucks purchased this year will equal emissions of particulate matter (PM) from 6 trucks purchased just three years ago and of a single new truck purchased 20 years ago. These new trucks also began the first half of what ultimately will be an additional 90 percent reduction in nitrogen oxide (NOx) emissions. Put another way, today's clean diesel engines are as clean as comparable natural gas vehicles.

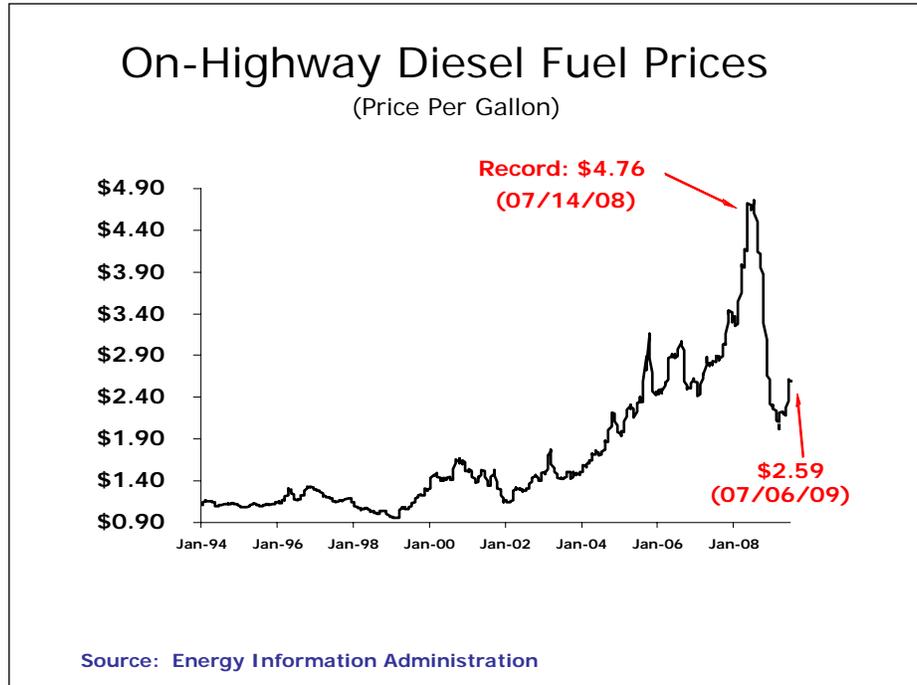
Not only have equipment costs increased due to federal requirements, state environmental mandates have substantially increased the financial burdens being placed upon our industry. Such state regulations include diesel engine retrofits, equipment mandates, and state biodiesel fuel requirements. Beyond the actual increases in equipment costs, the impact of reduced fuel economy further increased operating costs of the industry and had the unfortunate effect of increasing the trucking industry's carbon footprint.

I would like to take a few minutes to further expand upon the critical role diesel fuel plays in the trucking industry. The nation's long-haul truck industry depends on diesel fuel. Diesel fuel provides greater fuel economy and the higher energy content necessary to transport widely-diversified loads under extreme operating conditions. Diesel fuel is the main source of carbon emissions from our industry equating to 22.2 pounds of CO<sub>2e</sub> per gallon of fuel at the point of combustion and 27.1 pounds of CO<sub>2e</sub> when accounting for lifecycle emissions. While the transportation sector emits 28 percent of all U.S. GHG's, trucking contributes *less* than 6 percent of total U.S. carbon emissions.<sup>1</sup>

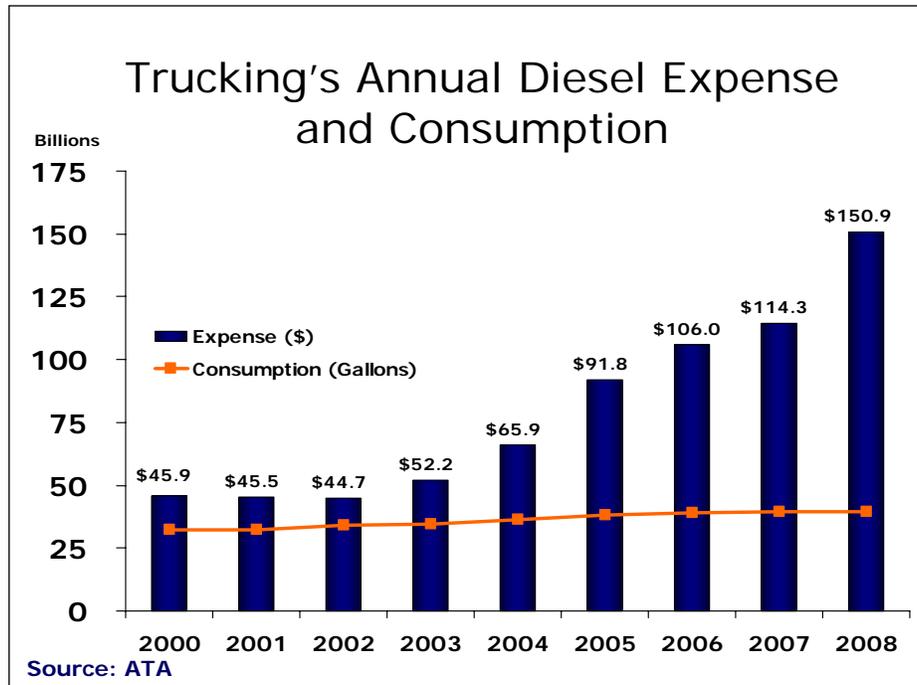


<sup>1</sup> U.S. EPA's *Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2007* (April 15, 2009).

While today's price for diesel fuel is a far cry from the nearly \$5/gallon we experienced in July 2008, these depressed diesel fuel prices are only temporary and once the economy rebounds, so will the escalation of fuel prices even in the absence of a climate change legislation.

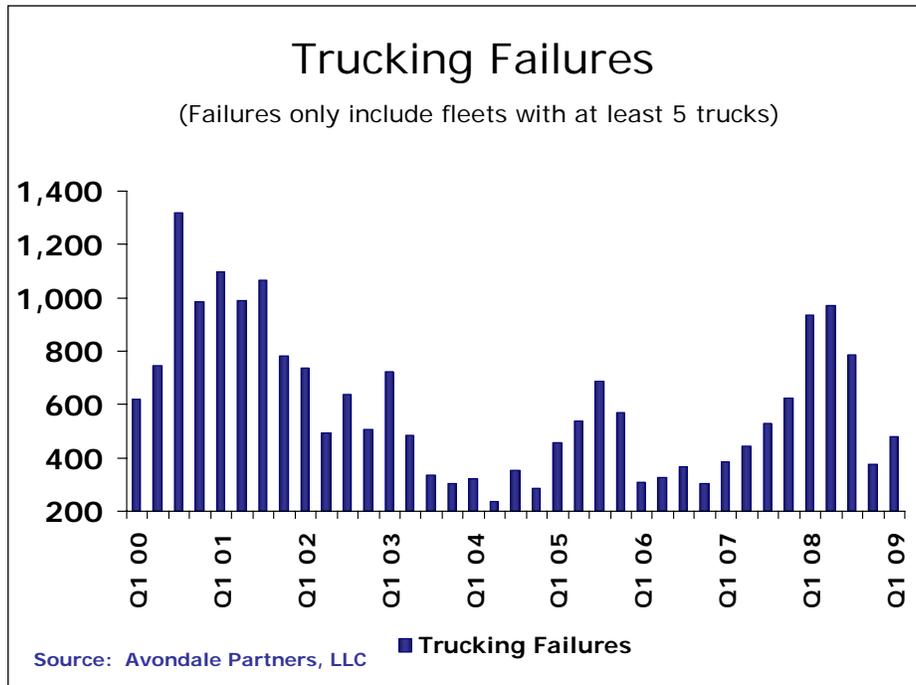


In 2008 trucking consumed over 39 billion gallons of diesel fuel. This means that a one-cent increase in the average price of diesel costs the trucking industry an additional \$390 million in fuel expenses. Fleets spent an astonishing \$151 billion on fuel in 2008, a \$36 *billion* increase from 2007 and more than double the amount spent in 2004.



To provide a better illustration as to the impact that increased fuel prices has on an individual trucking fleet, let me use my company as an example. I run 649 tractors, operate 1,672 trailers, and directly employ 854 hard-working professional men and women. My company consumes nearly 10 million gallons of diesel fuel annually. At this volume, \$3/gallon diesel fuel equates to a fuel bill of \$30 million/year; at \$4/gallon, \$40 million/year; and at \$5/gallon, \$50 million/year. While it is difficult to predict how much fuel prices will increase under cap-and-trade legislation, let us assume four scenarios of diesel fuel price increases: \$.10/gallon, \$.25/gallon, \$.50/gallon, and \$1.00/gallon. For my company, that would mean an additional cost burden of \$1 million, \$2.5 million, \$5 million, and \$10 million per year respectively, costs that will be difficult to absorb. Diesel fuel price increases exceeding these scenarios will further devastate the movement of this nation's freight. In addition to the direct costs associated with carbon reductions, speculation in the emerging carbon markets may further increase fuel costs leading to uncertain and unstable energy market futures and throw our best business planning out the window.

Sudden fluctuations in operating expenses, especially fuel, raise havoc in the trucking industry. With the downturn in the economy and soft demand for freight transportation services, trucking companies are struggling to survive. In 2007 and 2008, over 5,000 trucking companies with at least 5 trucks failed and thousands of independent operators, drivers, and employees have lost their jobs. A large number of companies that operate fewer than 5 trucks have also turned in their keys. These hardships surprise few in the industry, but may surprise those less familiar with the nature of freight movement.



As noted earlier, trucking is a highly competitive industry with very low profit margins. This explains why many trucking companies are reporting that as fuel prices increase, profits are greatly suppressed, if they are making a profit at all. Fleets can not absorb rapid increases in fuel costs. That is why the trucking industry is extremely sensitive to how climate legislation may further escalate fuel prices.

**B. Climate Change Legislation Needs to Address Highway Infrastructure Improvements**

Our nation faces an infrastructure crisis. The National Surface Transportation Policy and Revenue Study Commission reported to Congress that we need to invest at least \$225 billion annually to build and maintain a world-class infrastructure that can safely move both people and goods. According to the most recent report from the Texas Transportation Institute, drivers in metropolitan areas wasted 4.2 billion hours sitting in traffic, burning 2.81 billion gallons of fuel. Thus, one of the most effective ways to reduce fuel consumption is to make the nation’s highway system more efficient. If this is an approach that Congress ultimately adopts, then it is critical to apportion specific carbon auction revenues generated under climate change legislation to go toward highway infrastructure improvements that could reduce congestion and in turn reduce GHG emissions.

The Highway Trust Fund, which funds our highway and transit programs, is funded in large measure through the federal tax on gasoline and diesel. ATA has publicly stated its willingness to support an increase in those taxes provided the proceeds are invested in highways to address congestion and system capacity. However, by significantly raising the cost of fuel, climate change legislation will have the added consequence of jeopardizing the ability of the trucking industry to absorb additional fuel

tax increases for these much-needed infrastructure improvements. It has been trendy to talk about investments in public transportation systems - such as light rail and transit - as well as smart growth or "livability" initiatives as a way to reduce greenhouse gas emissions. However, the available evidence discussed below suggests that such approaches are not cost-effective and may, in some cases, even increase GHG emissions.

In 2006, transit systems on average emitted 213 grams of CO<sub>2</sub> per passenger-mile. The average passenger car emitted 245 grams of CO<sub>2</sub> per passenger-mile, just 15 percent more. While transit appears to do a little better than automobiles today, it is important to understand that auto energy efficiencies are improving, while public transportation efficiencies have declined, a trend that is likely to continue. As a result of EPA's new fuel-economy standards, by 2025 the average car on the road will emit only about 186 grams of CO<sub>2</sub> per passenger mile. This rapid improvement is possible because America's auto fleet almost completely turns over every 18 years. By comparison, rail transit trainsets remain in service for at least 30 years. Therefore, potential investments in transit must be compared, not to today's cars, but to cars that will be built 15 to 20 years from now.

It has also been assumed over the past several decades that transit-oriented development, smart growth, and similar initiatives will produce more compact communities that will advance alternative transportation such transit, biking, and walking. However, the vast majority of Americans choose to live in low-density communities and such investments are unlikely to change their minds. According to the National Association of Homebuilders, 83 percent of respondents in a nationwide survey would prefer a detached, single family home in the suburbs to an equally priced townhouse in the city, even though the suburban home would mean longer distances to work, shopping, and public transportation. Indeed, even after hundreds of billions of dollars in public transportation investments over the past 50 years, the number of people using public transportation has not increased, and the share of commuters who drive to work alone has risen significantly. Investment in public transportation, while perhaps helpful in terms of providing access to those who do not or cannot drive, has not lived up to expectations when evaluated in terms of its ability to reduce congestion and lower emissions.

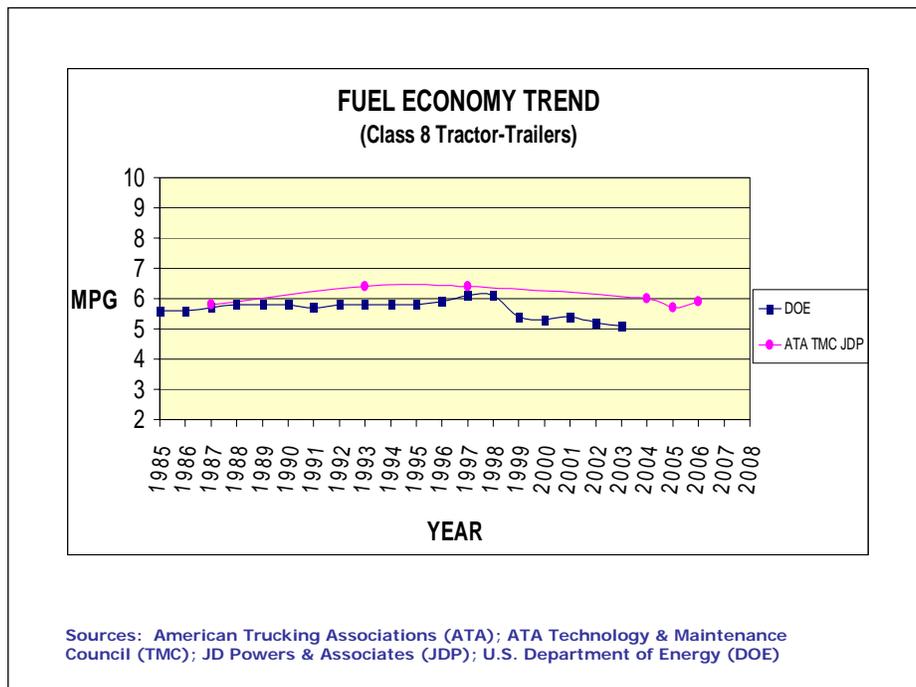
Another myth which must be dispelled is that we can't build our way out of congestion. The respected Texas Transportation Institute's annual congestion report found, in fact, that areas which were more active in adding roadway capacity were able to significantly slow the increase of traffic congestion. This is not to suggest that adding highway capacity is always the answer or increasing transit capacity is never the answer. However, it is time to put aside the false notion that transit is the best or only solution to solving congestion problems or that highways are never the answer. Federal policy should not discriminate against either solution. Instead, federal policy should ensure that solutions to congestion reduction meet cost-benefit tests and do not favor one approach over another. It is also inappropriate, and ultimately ineffective, to force people into making choices about where they live, work, or shop based on somebody else's notion of what constitutes a "livable community."

### C. Carbon Oversight Markets Must be Carefully Monitored and Transparent

ATA believes that it is critical to pass and implement commodities trading reforms prior to the creation of new physical and derivative carbon markets. ATA has been a vocal advocate for greater government oversight of markets that impact our industry in order to put a stop to excessive speculation. For example, the dramatic surge in fuel prices last summer (due in part to excessive speculation) taught our industry a valuable lesson about the consequences of lax government oversight of energy commodities. Carbon markets have the potential to add yet another layer of volatility to the cost of diesel fuel – a cost increase that can very easily devastate trucking company operations and the nation’s freight movement.

### D. Trucking Needs to be Addressed Differently from Other Transportation Modes

Congress needs to be mindful that heavy-duty trucks are far different from passenger cars. The trucking industry’s consumption of fuel is not discretionary. It is undertaken to deliver freight and artificially inflating the price of diesel fuel will not reduce the industry’s need to continue to consume this indispensable fuel source. Fuel economy of line-haul trucks has averaged between 6.0 and 6.5 miles per gallon over the last quarter century and in no way compares to fuel economy of automobiles. There are no mass-produced hybrid heavy-duty trucks, alternative fuels such as biodiesel and natural gas create operational challenges for certain segments of our industry, and so trucking remains dependent upon diesel fuel. The table below depicts historical fuel economy trends in our industry.



Truck transportation is not a discretionary activity – it is undertaken for the sole purpose of moving freight for our customers. We are dependent upon the use of diesel as our fuel of choice out of necessity given its cleanliness and efficiency in moving heavy loads. Natural gas may be used in certain segments of the trucking industry, but is an inadequate substitute for diesel fuel for over-the-road tractor semi-trailers. Similarly, biodiesel may be used in low percentage blends, but cannot begin to replace the industry’s dependence upon petroleum-based diesel fuel. The intent behind climate change legislation may indeed be to raise the price of petroleum-based fuels as a means to encourage consumers to pursue less energy-intensive or alternative means of transportation; however, those of us in the business of moving the nation’s freight have few, if any, alternative technologies or fuel options that are available to automobiles and light-duty trucks.

As for shifting transportation mode decisions, there has been much said lately regarding taking freight off of trucks and moving it onto rail for transport. The fact remains that rail generally has limited transportation networks, delivers non-time-sensitive goods, and often does not provide ultimate deliveries to their final destinations without the services of a truck. Take my home state of Montana for example. Intermodal rail does not service Montana nor are there any plans to do so. All goods delivered in Montana, and even other states, must be delivered by a truck. While many trucking companies do rely on rail to provide certain segments of their goods movements, and rail likewise relies on trucking as an important customer, the fact remains that trucking will continue to dominate the movement of freight transportation tonnage moving 71 percent of such tonnage in 2020.

It is critical to recognize and address trucking as a unique mobile source and not simply apply a one-size-fits-all solution for all mobile sources. Climate change legislation must consider dedicating specific carbon auction revenues for advancing new technologies and alternative fuels for an industry so vital to our nation’s economic well-being.

#### **E. State Transportation GHG Reduction Plans Must not Impede the Delivery of Goods**

Any state efforts to develop transportation GHG emission reduction goals and plans should ensure the safe, efficient, and unimpeded movement of goods between states. Emphasis should be placed on mitigating identified highway bottlenecks through highway infrastructure improvements. Each state that develops targets and strategies should be required to consider use of higher productivity vehicles and speed reduction on its highway system as a means of reducing carbon and saving fuel.

#### **F. Need for Federal Preemption of Regional, State, and Local Carbon Laws**

The trucking industry supports federal preemption of local, state, and regional climate change laws to avert a widely-diverse regulatory patchwork which would impede the delivery of the nation’s goods given the interstate nature of trucking. Such a patchwork would create widely varied economic and administrative regulations that will serve as barriers to an efficient transportation system. In the absence of federal climate

change guidance, governmental entities are taking matters into their own hands either independently or in collaboration with other vested stakeholders.

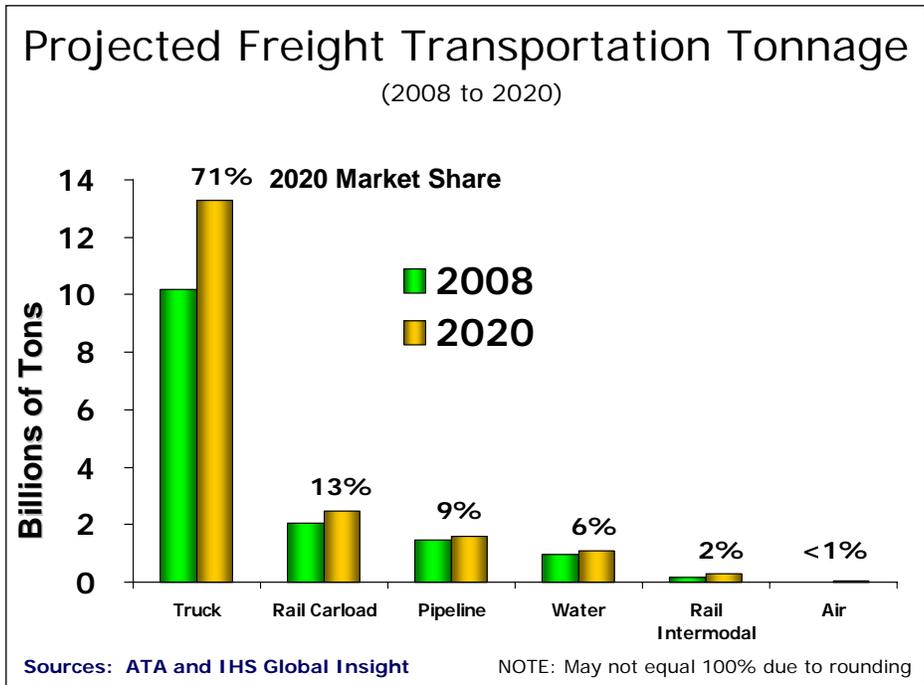
Long-haul truck drivers will not be able to efficiently deliver goods across state lines unless Congress proceeds to preempt regional, state, and local climate change efforts already enacted or being pursued. If 100 percent federal preemption is not secured by Congress, ATA in the alternative asks for a blanket exemption applicable to business activities involving the interstate transport of goods.

### **G. Free Allowances for Fuel Production are Critical to Maintain the Nation's Goods Movement**

Oil refiners should receive appropriate free carbon allowances for fuel production to help offset significant price increases for refined products. GHG contributions from the refining sector (including the refining facilities as well as the combustion of the fuels they produce) make up about 45 percent of total U.S. energy emissions. Given that new fuel economy standards for both automobiles and medium- and heavy-duty trucks are just around the corner, it is critical for the Congress to take measures to ensure fuel price spikes do not impede the nation's economic recovery efforts during this transition period. Increased free carbon allowances afforded to refineries will help keep fuel price increases in check.

A misconception exists that any increase in energy costs can simply be passed through to the next downstream entity. In reality, 100 percent of fuel cost increases can not be passed along from the refinery to the ultimate consumer. Not every entity throughout the supply chain will be able to recoup all of the cost increases passed onto it due to market uncertainties and the cost-competitive nature of businesses.

Trucking's fuel cost increases need to be taken into account under climate change legislation to ensure economic stability and growth in this country. We have a saying in our industry -- *Without Trucks America Stops*. Trucking is, and will remain, the predominant means of moving the nation's freight. As previously noted, by the year 2020, 71 percent of freight transportation tonnage will be delivered by a truck.



Keep in mind that as the U.S. population continues to grow, so does the corresponding demand for more consumer goods. The demand for more products equates to a need for more trucks which results in more vehicle miles traveled and more diesel fuel consumed. The following table shows the relationship between Class 8 trucks, diesel fuel demands, vehicle miles traveled, and population projections for the U.S.

### Trucks, Fuel Use, VMT's and Population

Year	Class 8 Trucks (Millions)	Diesel Fuel Consumed (Billion Gallons)	VMT (Billions)	U.S. Population (Millions)
2000	2.60	32.5	119.7	282.3
2001	2.61	32.5	115.7	285.0
2002	2.63	33.9	114.5	287.7
2003	2.64	34.6	113.9	290.3
2004	2.72	36.4	117.8	293.0
2005	2.86	38.1	130.5	295.7
2006	3.01	39.1	139.3	298.4
% Increase Over 2000	+16%	+20%	+16%	+6%
2018	3.64	--	178.8	330.7
% Increase Over 2000	+40%	--	+49%	+17%

Source: American Trucking Associations

Since trucking consumes over 90 percent of the nation's on-road diesel fuel, climate legislation must not inhibit the ability of the nation's trucking fleets to afford fuel purchases in order to keep up with business and consumer demands for products. If diesel prices are not kept in check, the movement of the nation's freight will be impeded and the very core of the nation's economy will be impacted. While it is important to increase the amount of free allocations for refinery operation emissions, it is more critical to set aside free allowances specific to diesel fuel to mitigate dramatic fuel pricing increases. Mechanisms should be put in place to ensure any diesel fuel emission allowances are in fact used to keep diesel fuel prices in check.

### **There are Reasonable Measures to Further Reduce Carbon Emissions from Trucks**

Any substantial cost increases imposed directly or indirectly on trucks by climate change legislation will curtail the delivery of vital consumer goods across the nation such as food, medicine, and clothing. Constraining the country's freight delivery system would change our way of life for the worse by significantly increasing the cost of everything we buy.

The trucking industry believes that commercial trucks should be addressed differently than traditional stationary or mobile sources under any proposed climate change legislation. Since there are better, cost-effective measures to use to reduce carbon emissions from the trucking industry, ATA developed its *Strategies for Reducing the Trucking Industry's Carbon Footprint*. (To view ATA's plan, go to: [http://www.trucksdeliver.org/pdfs/Campaign\\_Executive\\_Summary.pdf](http://www.trucksdeliver.org/pdfs/Campaign_Executive_Summary.pdf)).

ATA's proactive sustainability agenda includes: (1) enacting a national 65 mph speed limit and governing truck speeds at 65 mph for trucks manufactured after 1992; (2) increasing fuel efficiency through EPA's SmartWay<sup>SM</sup> Program<sup>2</sup>; (3) supporting national fuel economy standards for medium- and heavy-duty trucks; (4) decreasing idling<sup>3</sup>; (5) reducing highway congestion through highway infrastructure improvements; and (6) promoting the use of more productive truck combinations.

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<sup>2</sup> In February 2004, the freight industry and EPA jointly unveiled the SmartWay<sup>SM</sup> Transport Partnership, a collaborative voluntary greenhouse gas reduction program designed to increase the energy efficiency and energy security of our country while significantly reducing emissions in the process. The program's mantra is "fuel not burned equates to emissions not had." 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. The trucking industry fully embraces SmartWay<sup>SM</sup> and relies upon the innovativeness of this cutting edge program. However, while the program is growing by leaps and bounds, future funding remains uncertain. ATA and other freight and shipping sectors continue to work towards ensuring permanent funding for the SmartWay<sup>SM</sup> program.

<sup>3</sup> Operation of a truck's main engine when a truck remains motionless is known as idling. Trucks idle for a variety of reasons including traffic congestion; heating or cooling the cab/sleeper compartment of the truck during required federal rest periods; providing power to operate on-board appliances; and keeping the engine block and oil warm to avoid cold engine start-up problems during the winter season. An idling truck consumes .8-1 gallon of diesel fuel per hour.

ATA's sustainability agenda could reduce trucking's annual carbon emissions by more than 20 percent. These reasonable measures will bring real results for reducing trucking's carbon footprint while at the same time reducing other regulated emissions, enhancing safety, helping to achieve energy independence, and keeping the nation's economic engine churning.

ATA and Watkins and Shepard Trucking appreciate the opportunity to offer the trucking industry's testimony before this Committee and I look forward to answering any of your questions. Thank you.