SUBCOMMITTEE HEARING ON THE IMPACT OF INCREASING GAS PRICES ON SMALL BUSINESSES

SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

APRIL 9, 2008

Serial Number 110-82

Printed for the use of the Committee on Small Business

Available via the World Wide Web: http://www.access.gpo.gov/congress/house

U.S. GOVERNMENT PRINTING OFFICE

41–491 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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SUBCOMMITTEE HEARING ON THE IMPACT OF INCREASING GAS PRICES ON SMALL BUSINESSES

Wednesday, April 9, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 1539 Longworth House Office Building, Hon. Jason Altmire [chairman of the Subcommittee] presiding.

Present: Representatives Altmire, Gonzaez, and Gohmert.

Also Present: Representatives Ellsworth and Fallin.

OPENING STATEMENT OF CHAIRMAN ALTMIRE

Chairman ALTMIRE. The hearing will come to order. I call the Subcommittee hearing to order to examine the impact of increasing gas prices on small businesses. Gasoline and diesel fuel prices have been climbing at unprecedented rates. And today we will hear about how these rising costs are negatively impacting our nation's entrepreneurs.

With small firms being the nation's single largest employer, we need to do everything we can to help them thrive. Just a couple of weeks ago, oil reached an all-time high of $111 a barrel. According to AAA, the national average for a gallon of gasoline is now a record $3.33. In my own western Pennsylvania district, I have seen gas prices approach $4 a gallon.

I hope today's hearing will give us a better understanding of how small firms are being impacted by these rising energy prices. I am sure we will hear from our panel of witnesses that the problem is widespread and impacts both consumers and small businesses. Continued energy price hikes mean sacrifices in a local business' bottom line. These costs can determine whether a construction firm is available to invest in a new storage facility and whether a family farmer can afford fertilizer for this year's crops.

The situation creates hardships in virtually every industry throughout the nation. While it has hit some sectors harder than others, it affects businesses ranging from hotels and restaurants to the local grocery store that has to raise the price of bread that families depend on.

Today we will hear from small businesses coping with rising energy costs. We also have experts with us who will discuss the increasing demand, limited supplies, and market conditions associated with the price increases and what solutions are available to combat this growing problem.

Unfortunately, these trends deflate small business owners' expectations for expansion. In fact, two-thirds of entrepreneurs are anticipating lower profits this year when compared to previous years due in large part to increased energy costs.

Also at issue are small businesses that use energy resources on a daily basis to meet their transportation needs. Take our nation's trucking companies. The trucking industry is on pace to spend an unprecedented $135 billion on diesel costs alone. This amount is $22 billion more than what was reported just last year. Such rapidly rising costs pose a severe long-term challenge to U.S. small businesses.

There are few options when it comes to confronting these costs as many companies are simply unable to reduce their energy consumption. Rising costs usually result in less available capital to expand small businesses, which spells bad news for our economy as a whole.

To help ease the burden of increasing costs, we must consider and enact long-term solutions. There needs to be continued investment in renewable energy and recognition that alternative sources of fuel are a vital part of addressing the problem.

We also need to continue providing business owners with the necessary resources to develop and purchase greater energy-efficient technologies. That is exactly why this Committee last year shepherded the Small Energy-Efficient Business Act through Congress. Now that act assists small businesses through investment in new, renewable, and green technologies.

The law also expands traditional SBA loan programs by broadening their criteria to help address energy needs. While this may not be the catch-all solution, that act took decisive steps toward addressing the energy needs of small firms. And we intend to continue that work.

Our nation's entrepreneurs deserve our every effort to provide them with the tools they need. My hope is that today's hearing will be the first opportunity to discuss some of these challenges and offer solutions to assist our country's small businesses in dealing with the current grim circumstances.

At this time I would welcome our new ranking member to this Committee, my good friend and colleague, Mary Fallin from Oklahoma. So I would yield to the Ranking Member Fallin for her opening statement.

OPENING STATEMENT OF MS. FALLIN

Ms. FALLIN. Thank you, Mr. Chairman. And welcome to all of our guest panelists today. It is good to have you here. We appreciate your time to come and visit with our Committee. And thank you, Mr. Chairman, for having me as a new ranking member. It is a pleasure to be on this Committee. And, of course, small business is something that is near and dear to my heart.

Let me just start out by talking about our consumers. Just like consumers, small business owners are feeling the financial squeeze of rising energy costs. And in most cases, these small businesses are having to reexamine their business plans, their future investments, the bottom line profitability, and even job creation.

And it is very imperative that Congress needs to investigate possible steps to lower the cost for small business for fuel; encourage the use of energy conservation measures; bolster our national economy; and, of course, to reduce our dependency on energy from foreign markets.

I would like to just say thank you to all of our special witnesses that have joined us here today to come and provide information that will be very important in helping us look at policy as a nation and especially would like to welcome a fellow Oklahoman, Dr. Vince Orza, who is dean of the Meinders School of Business, also an academic scholar and TV commentator, ran for a couple of political offices. And we are glad to have him come today to lend his expertise.

Small businesses are the economic engine that drives our economy and job creation. Small businesses feed our families and provide goods and services to our community. They serve as seeds of innovation, producing 13 to 14 times more patents per employee than large firms. And small businesses participate in all major industries and represent 99.7 percent of all employees and employ 50 percent of all private sector workers.

In addition, 39 percent of the high tech workers, such as scientists, engineers, computer workers, are all employed for the most part by small businesses. Rising gasoline and diesel fuel prices are impacting the economy from individual consumers, who buy from small businesses, to international conglomerates, who do business with them.

Small businesses are consistently ranked as one of the hardest-hit sectors when it comes to rising fuel prices. These rising costs have per family impacted the day-to-day routine of running a business. Whether it is the cost of the transportation of goods and services, the operation of machinery, the mileage in employee expense reports, delayed receivables, or even tighter access to capital and loans, small businesses are feeling the pinch.

Many large firms can pass on the increased fuel cost to their consumers, but because small business concerns often operate on razor-thin margins and very competitive pricing, passing on the fuel cost increase to their consumers could result in a loss of sales and in the long term even going out of business.

Some small businesses have found ways to observe fuel costs and employ energy conservation steps. However, the practice of absorbing fuel costs cannot be sustained in the long term.

The impact of high fuel costs upon some small businesses, like trucking and charter bus companies, can be greater than other market segments. Rising fuel costs have also become a barrier to entry for people planning to start a small business or even expand a small business.

Well, this nation was built on the backs of hardworking small business owners. We have benefited greatly from a rich history of American innovation and entrepreneur spirit. We must do all that we can as a nation to support our small business owners and maintain an economic environment that is vibrant and rewards hard work and encourages sound investment.

Now, Mr. Chairman, I look forward to working with you on this important issue and again want to thank all of you for being here today. And thank you for your testimony. I will yield back the balance of my time.

Chairman ALTMIRE. Thank the Ranking Member. And we will now move to testimony from the witnesses.

Let me just explain the timer real quick. You will each have five minutes for your remarks. You will see the green light for the first four minutes. When the light turns yellow, that means you are into your last minute. Please sum up your remarks. And then red light means time is up.

So at this point I want to introduce our first witness, Mr. Tim Williford. He is the Chairman of the Plumbing- Heating-Cooling Contractors - National Association. As Chairman, he leads the Government Relations Committee study of federal legislation and the recommendations to the PHCC Board of Directors on positions on industry issues.

Established in 1883, the PHCC is the oldest trade association in the construction industry and is dedicated to the promotion, advancement, education, and training of the industry for the protection of environment and health, safety, and comfort of society.

Today PHCC Has more than 4,100 contractor members from open and union shops, who work in residential, commercial, new construction, industrial, and service and repair industry segments.

Welcome, Mr. Williford. We look forward to your testimony.

STATEMENT OF MR. TIM WILLIFORD, CHAIRMAN GOVERNMENT AFFAIRS COMMITTEE, PLUMBING-HEATING-COOLING CONTRACTORS - NATIONAL ASSOCIATION

Mr. WILLIFORD. Good morning. Thank you, Chairman Altmire and Ranking Member Fallin and members of the Subcommittee, for the opportunity to speak to you today regarding the impact rising fuel prices are having on small businesses.

My name, as you said, is Tim Williford. And I come before you today as a small business owner and a representative of the over 4,000 member companies of the Plumbing-Heating-Cooling Contractors - National Association.

I currently serve as Vice President of Finance and Administration for Southern Piping Company, a mechanical contractor founded by my father over 40 years ago in Wilson, North Carolina.

I also serve as the Chairman of the Government Relations Committee of the PHCC. PHCC is the oldest trade association in the construction industry and, as I mentioned, represents over 4,000 contractor members across the country, the majority of whom are small businesses.

Anyone who has built or helped to operate a business, particularly a small one, will tell you that it is not an easy task. This has never been more true than today. Remaining profitable has become increasingly difficult with the rise in fuel prices.

Unfortunately, the slowing economy has had a profoundly negative impact on all aspects of our industry. Data for February showed a decline of three-tenths of a percent in construction spending, marking the industry's fifth straight monthly decline.

As a result, contractors are searching for ways to trim overhead. These efforts are, of course, complicated by the increased fuel prices. Recently PHCC solicited members' comments regarding the impact of fuel prices on their operations. And their response was overwhelming. Over 90 percent said their businesses will suffer this year because of increased gas prices.

In the past, many service and repair contractors tried to pass the increases on to consumers in one way or another. My opinion, however, is that consumers have probably reached their limit in terms of paying for the increased cost of contractors.

Service contractors responded to our queries with thoughtful insight. One cited spending $47,000 in 2005 on gas and oil for a fleet of 16 trucks. In 2006, that number was up to $62,000 and then again up to $70,000 in 2007. This year they are on track to spend $88,000 after budgeting only $66,000. Rising gas prices will siphon $22,000 off their bottom line unless they can find a way to pass that increase along.

For contractors engaged in construction, the actual installation of plumbing and mechanical systems, gas prices pose a particular risk. For projects lasting a year or more, contractors must make an informed estimate as to what prices may be in 12 or 15 months.

Contractors build this price into their overhead cost for a particular project. And if the price exceeds what they estimated, they must absorb that cost, often causing a tremendous financial strain.

One contractor told us, "In January of 2007, our fuel bill was $13,000, in January 2008 $20,000. The sad news is we drove only 150 miles more during the same time frame." Annually that is an increase of $84,000, or 53 percent.

At Southern Piping Company, we spent a million dollars for gas and oil last year. And we expect an increase of 250 to 500 thousand dollars this year. Even a small change in the price of gas can have a significant impact. We know that for every increase of 10 cents a gallon in the price of gasoline, we incur an additional $35,000 in overhead.

As a result, we and other contractors are evaluating ways to reduce gasoline consumption. And we certainly make every effort to be fuel- efficient. However, aside from those measures, our options are limited. Therefore, we are forced to consider reducing our contributions to our employees' retirement accounts, increasing the amount that employees must pay for their health insurance, and cutting other employee benefits. These are painful, painful reductions.

We compete very hard for employees coming from a limited talent pool. And one of the ways that we do that is to offer a good benefits package. Rising gasoline prices put those benefits in jeopardy.

At our company, for example, we recently shelved plans to implement a wellness program and postponed additional spending on our safety program. These are crucial initiatives to our company as we try to maintain a safe, healthy, and productive workforce.

In the end, Southern Piping Company is no different than the rest of PHCC's members. And PHCC's members are certainly reflective of small businesses across the country. Gasoline and other petroleum products enable small businesses to remain the backbone of our economy. As those prices climb ever higher, the fortunes of America's small businesses grow more dim and, with them, the fortunes of the economy as a whole.

Thank you for your time and your consideration. And I look forward to your questions.

[The prepared statement of Mr. Williford may be found in the Appendix on page 32.]

Ms. FALLIN. It is my pleasure to introduce our next speaker, who is a fellow Oklahoman. Dr. Orza holds a doctorate of education degree from the University of Oklahoma and is the dean of the Meinders School of Business at Oklahoma City University.

Dr. Orza is recognized for his contributions to business education and the civic community, and here are just a few of his accomplishments. He founded and served as the Chairman of the Board of Directors and Chief Executive Officer of Eateries Incorporated, a growing national restaurant chain that started out with an idea and grew to over $100 million in annual sales. Eateries has been named as one of the top 100 small business companies in America as well as the number one publicly traded company in Oklahoma. And he was also named as one of the top ten best performing CEOs by Restaurant Business magazine.

He has been a television reporter, an anchor with ABC TV affiliate KOCO-TV in Oklahoma City. And he currently provides economic commentary and analysis for CBS and affiliate of KWTV. He is a speaker, a panelist, an organizer of many national conferences and conventions.

So, Dr. Orza, we are thrilled to have you here today.

STATEMENT OF MR. VINCENT F. ORZA, JR., DEAN, MEINDERS SCHOOL OF BUSINESS, OKLAHOMA CITY UNIVERSITY

Mr. ORZA. I have served as both an entrepreneur, founder of a company, as well as a corporate executive, a journalist, and an educator.

Regarding the very simple issue of gas prices and small business, the simple fact is that virtually every product bought or sold in America winds up being transported in a car or truck at some point in the consumption process.

So rising gas prices affect everyone, every business, and fuel surcharges are making matters worse simply because most small businesses absorb them. Those fuel prices have a multiplier effect since rising prices affect the cost of doing business for the company as well as the cost of living for the consumer.

Historically small businesses run much thinner margins than do large competitors. They have less leverage in negotiating pricing for transportation, marketing, labor. There are two simple choices to reverse declining profits and minimize losses. We either cut costs or we increase prices.

Typically the first way businesses attack rising prices or shrinking profits is to reduce labor costs. It is simply the largest cost center most companies face.

When I was asked about shrinking profits and losses, like many small business owners, the first salary I cut was my own. The American economy is driven by consumer spending. When unemployment increases, consumer spending will likely decline. If you earn less, you spend less. That affects small business.

The slides that I will show you are from a poll that the Meinders School of Business took last month. It is provided, by the way, to the Federal Reserve Bank, the Kansas City branch, and for the Open Market Committee. It mirrors what the University of Michigan poll shows. And, as you scan see, the decline in the graphs is noticeably negative.

Business and personal expectations, 50 percent of consumers in 16 middle American states now say that they believe the coming year will be bad for business. That is up from 37 percent in October and 20 percent last May.

In terms of their current financial position, 39 percent of the respondents said they believe their financial situation will be worse. Forty- seven percent of the consumers believe the next 5 years will bring periods of depression versus 37 percent in October.

Women, you will notice, are considerably more pessimistic than men. The decline in the thinking now is also showing up in durable household items, the purchase of those down from 46 percent to 38 percent.

Consumers continue to change their habits as a result of gas prices. As you can see, for all categories, 53 percent of all consumers, 58 percent of women say they are now driving less. And, by the way, it goes across all of the different categories across the United States: north central, south central, and so on. All of the demographics are in the handout I have given you.

SBA members document some of the problems already occurring. Business bankruptcy has risen. For the last four quarters, the same time business optimism, consumer sentiment optimism both declining as a result of rising unemployment.

Inflation is impacting consumer prices. At three dollars a gallon, consumer discretionary spending winds up, in fact, impacting quick service and casual theme restaurants, who alone have shown a loss of ten percent of their customers so far in the last few months.

Soft good purchases at chain stores, many of which operate as small franchisees and thousands of independent merchants are down along with ticket sales at movie theatres. Small businesses are also starting to impact hiring for many minorities, women, and immigrants, which is where they quite often begin their careers, and already face social and economic challenges and are now beginning to be squeezed as a result.

Rising fuel prices pose an enhanced threat for business owners at a very time when we are talking about increasing diversity. Rising fuel prices have resulted in poor sales, declining profits, and losses from Macy's, Wal- Mart, Sears, Wilson Leathers, Applebee's, not to mention thousands of mom and pop restaurants and as well as high-end stores like Nordstrom's. Liz Claiborne is shuttering 54 Sigrid Olsen stores, Ann Taylor closing 117 of their 921 stores, Talbot's closing all of its men's and children's stores along with 22 women's stores. Even Target and Starbucks are seeing a decline. All of those companies are serviced by small businesses, who do window washing, custodial services, paper products, delivery, alterations.

Vacancy rates at shopping centers, regional malls down dramatically, national retail vacancy rates rose for the 11th straight quarter to the highest level since 1996. And there are 34 million feet of new construction underway. All of that paints a dark picture for small business. Corporate defaults, bankruptcies, rising fuel prices not only threaten the airlines but all of the small businesses that service them.

Recently members of Congress called in the heads of the oil companies to talk about rising profits. The truth of the matter is that is what will lead to a solution here. Rising profits mean an increase in drilling and increase in exploration and more jobs.

And so we shouldn't penalize a company that is doing well, even if it is in the face affecting all of us in the near term. The problem is increased demand, China and India and a host of other countries increasing demand more than anyone would imagine just five or ten years ago.

Thank you very much.

[The prepared statement of Mr. Orza may be found in the Appendix on page 36.]

Chairman ALTMIRE. Thank you. And I want to recognize our colleagues from Texas who have joined us, Mr. Gohmert and Mr. Gonzaez. Thank you each for being here.

At this point I want to introduce Mr. John Urbanchuk. He is an economist and serves as the Director of LECG in Pennsylvania. Mr. Urbanchuk specializes in applying economic analysis tools to individual firm and industry problems. This includes market analysis, business strategy development, and analysis of the impact of government policy and regulatory changes on business and industry. His research specializes in renewable energy, agriculture, and consumer foods.

Since 1988, LECG has been providing independent expert testimony and analysis, original authoritative studies, and strategic consulting services. It has over 850 experts and professionals across 30 disciplines in 10 countries.

Welcome, Mr. Urbanchuk.

STATEMENT OF MR. JOHN URBANCHUK, DIRECTOR, LECG, LLC

Mr. URBANCHUK. Thank you very much. I appreciate the opportunity to come here today and talk to you about the issue of rising gasoline prices.

As you indicated, my name is John Urbanchuk, and I am a Director at LECG. Recently, for the past 20 or so years, I have been focusing on agriculture issues and biofuels/renewable fuels, issues. And I want to talk a little bit about the impact of not only rising gasoline prices but also potential for renewable biofuels to address this particular problem.

American consumers and small businesses are reeling under the financial pressure of rapidly rising fuel prices. As you pointed out earlier, crude oil prices have topped the $100 a barrel level, which when combined with constrained refinery capacity has pushed retail gasoline and on-highway diesel prices to new records levels.

According to the Energy Information Administration, Americans used about 138 billion gallons of gasoline and 55 billion gallons of number two diesel fuel for highway use. At average pump prices, this amounted to about $397 billion of spending on gasoline and nearly $159 billion on diesel fuel.

The national average retail price of gasoline for all grades reached $3.26 a gallon in March of 2008. That is 28 percent above where it was just a year ago, while retail-level diesel prices were about 52 percent above a year ago levels in March, averaging $3.88 a gallon. And, frankly, there is no end in sight for rising prices.

Yesterday the Energy Information Administration revised its short-term energy outlook and projected oil prices at $101 a barrel for the remainder of 2008 and increased their projection for next year to $92.50 a barrel for 2009. So we are in this mess for some time. Gas prices are expected now to average nearly $3.60 a gallon this summer, with projections for some areas of the country to top $4 a gallon.

Increased motor fuel prices affect consumers in a number of different ways. First, high pump prices force drivers to allocate a larger share of disposable income to fuel. And perhaps most importantly, since rising fuel prices increase operating costs for businesses at virtually every stage of production and distribution, high fuel prices eventually affect the prices of all consumer goods and services.

Rising fuel prices have been a major contributor to recent increases in inflation. The CPI for all items increased at a 4.2 percent rate on average over the last four months. That is about twice where it was a year gao.

Over that same period, the CPI for motor fuels increased at 33.4 percent. The impact of rising fuel prices on other consumer goods is perhaps best illustrated by their impact on food prices. Many critics have blamed the recent increases in consumer food prices on rising grain prices, which is due, in part, to increased demand for biofuels.

While grain and other agricultural prices have increased sharply over the past year, their impact on consumer food prices is overshadowed by energy and energy prices. Energy plays a significant role in the production of raw agricultural commodities, transportation and processing, and distribution of consumer finished food products.

I conducted an analysis last year that was sponsored by the Renewable Fuels Association that concluded that an increase in fuel prices--and we looked at energy fuel prices particularly--has twice the impact on consumer food prices measured by the CPI--that is what we all pay when we go to the grocery store--as the same percentage increase in corn prices. That is just one raw material that goes into that basket of food.

Ethanol and biodiesel biofuels have a significant impact on restraining the increase in motor fuel prices. Increased production and use of ethanol is helping to displace gasoline demand and reduce prices at the pump.

Last year we produced six and a half billion gallons of ethanol. This year we are going to produce close to nine billion. The new Energy Independence and Security Act of 2008 requires we use 36 billion gallons by 2022. This is 30 percent of the nation's motor fuel supply. That is going to extend supplies and increase and work to lower prices at the pump.

We estimated in a very recent study that ethanol saved the American consumer an estimated 10.3 cents a gallon at the retail pump in 2007, for total savings of about $6.8 billion.

Considering what is going on with regard to oil and gasoline prices now, we expect similar savings in 2008. And as we move forward in increasing the supply of biofuels, it is going to relieve pressure on consumer prices.

Thank you very much.

[The prepared statement of Mr. Urbanchuk may be found in the Appendix on page 44.]

Chairman ALTMIRE. Thank you.

Michael Graff is my constituent. And he is President and CEO to Graff Trucking, Incorporated, located in Natrona Heights, Pennsylvania. He founded the company in 1986 with one vehicle as a part-time venture, but since then he has expanded the business to a full-time operation with 12 employees, 9 vehicles, and 44 trailers. Graff Trucking works with both national and local businesses and operates primarily in the Northeastern states of Pennsylvania, New York, Ohio, New Jersey, and Maryland.

Welcome, Mr. Graff.

STATEMENT OF MR. MICHAEL GRAFF, PRESIDENT & CEO, GRAFF TRUCKING, INC.

Mr. GRAFF. Thank you.

You know, the fuel prices, they have been on the rise in this country, you know, for the past several years. And although there has been much publicity recently around rising prices, this issue has been ongoing to the trucking industry for several years. We have been suffering from increases that have caused us to lose efficiencies and erode our profits.

In the past year, diesel prices have continued to increase while today averaging around $4 to $4.50 a gallon. At first the increases were simply borne by the trucking companies and became so high that operating without fuel surcharges or increasing prices was no longer an option.

What continues to be amazing is the fact that diesel fuel is less refined and, therefore, costs less to produce but is averaging approximately 77 cents more per gallon than gasoline.

While I struggle to remain in business dealing with escalating costs, our fuel companies continue to report record-breaking profits. What remains extremely frustrating to all businesses and consumers who are facing higher costs is the same fuel companies continue to receiving tax breaks.

Graff Trucking employs 12 employees. And despite a solid relationship and established 20-year history in business ,I am at a point that I am questioning my ability to continue to operate. The news reports almost daily on companies who are ceasing to operate or filing for bankruptcy, including three airlines just last week, due to the increase in operating expenses.

One common thread for these companies and the trucking industry are the fact that the fuel is the highest expense and has driven them out of business. I request your help so that Graff Trucking is not the next company faced to follow this path.

What is the driver for these outrageous fuel prices? Is energy trading and Wall Street playing a huge part in the root cause of the fuel prices? Wall Street is not driven to provide affordable energy supplies.

Due to the limited overseeing of energy trading and the dominant position in oil futures by Investment banks and hedge funds, this may be a contributing factor of the volatility of prices leading to high gasoline, diesel, and oil prices.

The government standard rate for transportation, rate per mile charged for similar type modes of transportation and fuel surcharge rates, equal. What we need there is some help from the government to come up with some standardized rates. Okay? This would allow for small business owners to be competitive and not allow large companies to dictate the rates, which is my fear.

I hate to see any more government involved in business than it is today, but if the government does not step in now, what we are going to have is large companies only. And they are going to be dictating the transportation rates.

The transportation industry is the first impacted by these rates and then filter further into the economy and touch all citizens, which everyone else has testified to. There is, potential for increased costs to all of our business sectors for our country is at risk. Government must take immediate steps to prevent the economy from slipping even further into a negative state than we are currently facing.

Pennsylvania, where I am from, has the highest tax on diesel in the nation. The government is considering implementing a toll on interstate 80 as well as discussion on privatizing the Pennsylvania Turnpike, which is selling the Pennsylvania Turnpike. These actions would have a continued detrimental effect on the transportation industry.

In Pittsburgh a ten percent drink tax was initiated to help address financial struggles of the mass transit, the port authority. These are not steps needed to resolve the issues we are facing.

This Committee as well as the federal and state governments must work together to implement both short and long-term solutions to allow small business owners such as myself the ability to continue to operate allowing us to provide employment and service to our customers.

Now what I would like to see our federal government help us out with are alternative auxiliary power units where these tractor-trailers do not have to sit along the roads in idle 24 hours, whatever, so that the drivers may stay cold in the summer, stay warm in the winter, their auxiliary power units.

I would like to see a grant, some type of grant, from our federal government. We would decrease the emissions and the fuel usage. These are the kind of answers that I am looking for from our federal government.

I am not looking for free handouts, whatever. I am looking for grants, whatever so that we can reduce and help our own industry survive. This is what we need to have happening.

And we need to limit the price of fuel increases on a weekly basis. So that Monday when we bid our freight rates out for the week, Tuesday the fuel price is up 14-15 cents a gallon. Our government needs to step in and help us with the cost rising throughout the weeks.

We need set rates on fuel. No one else in the industry in this whole country can get away with what these oil companies do to us in this industry every week. These prices continue to fluctuate. They jump up. No reason. Because the wind blew wrong somewhere. It is crazy what goes on in this country with these oil prices. And the federal government needs to step in and give us a helping hand.

Thank you very much. Appreciate you having me.

[The prepared statement of Mr. Graff may be found in the Appendix on page 49.]

Chairman ALTMIRE. Thank you, Mr. Graff. Thanks for telling your story.

And several weeks ago I had the opportunity to go to Chesapeake Rehab in my district in Plum. And Mr. Gilberti and I had the opportunity to talk there. And it is a medical provider, medical equipment provider.

And when we talked about gas prices, it struck me at how pervasive this problem is across our economy, that it is really affecting every type of business that is out there. And that really was the genesis of this hearing.

It is why we wanted to have the hearing to demonstrate for everybody that this was not just unique to the trucking industry and it is not something that you can just target as having hit one industry, but it really is affecting everybody. And that is why I am so happy that Mr. Gilberti is here to tell his story.

Gary Gilberti is President of Chesapeake Rehab Equipment and is President Elect of the National Coalition for Assistive and Rehab Technology. They work to promote the interests of rehab and assistive technology industries, ensuring adequate consumer access to appropriate technology and services while creating a stable business environment for providers and manufacturers of rehabilitation and assistive technology.

Chesapeake Rehabilitation Equipment is a small regional company which provides rehab technology products and services to disabled Americans throughout the Northeast, including in western Pennsylvania.

Thank you, Mr. Gilberti.

STATEMENT OF MR. GARY GILBERTI, CHESAPEAKE REHAB EQUIPMENT

Mr. GILBERTI. Thank you, Congressman Altmire and Committee, for having me here today. I appreciate the opportunity to discuss the impact of fuel prices on my business and other medical equipment providers.

Chesapeake Rehab Equipment is a regional provider of home medical equipment and specifically in the rehab technology sector, where we serve individuals with severe disabilities.

The National Coalition of Assistive and Rehab Technology represents companies like mine on issues such as Medicare and Medicaid issues and trying to assure the access to medical equipment for disabled Americans.

The rehab technology industry is a small division of the durable medical equipment industry. Businesses in this sector provide home medical equipment and services to individuals with a variety of conditions and disabilities. Our delivery model is such that we must make deliveries and service calls to customers' homes on a daily basis.

Companies in this industry are primarily small. The average company is anywhere from two to three million in revenue annually serving local or regional areas. Our companies employ fleets of vehicles and it is not uncommon to make 10 stops a day and serve a 150 to 200-mile area for each vehicle in a day.

We are also in a price-regulated environment. Ninety-five percent of our reimbursement for the services we provide comes from Medicaid or Medicare or third party insurers. Anybody who knows anything about Medicare knows that they are implementing budget cuts and competitive bidding and other ways to cut costs. That trickles down to our industry, cutting our bottom line even further.

When things like fuel prices hit our businesses, we get squeezed from two directions. We get squeezed by the increasing operating cost and then the decreasing revenue opportunity from regulation by our pay sources.

We are unable to unilaterally raise our prices, unlike other home service agencies or home service companies, such as electricians or plumbers. We can't just increase our labor rate or add fuel charges to make back what we lose in operating costs.

Just as an example, since 2003, my company has experienced a 126 percent increase in fuel prices. Fuel is now the third largest operating expense we have, behind payroll and facility rent. It has increased five times more than any other operating expense.

In 2006, a study was done by the Moran Group that showed that home medical equipment companies, specifically rehab technology companies, experienced about a 1.6 net profit on the average. That means that half these companies are below that. When you increase fuel prices or any operating expense at the rate that this has occurred, you put an already very fragile industry under water.

With Medicare and Medicaid continuing to look at where they can cut costs and with programs like competitive bidding where they are anticipating a 10 to 20 percent savings in what they are paying providers for the services we do every day, there is no room for us anymore.

And I am concerned that if this continues and if fuel prices continue to increase the way they are, companies in our industry are going to be going out of business at an alarming rate. That means a lack of access to our services and goods for people who are severely disabled.

Not only are we feeling the pinch on the direct operating lines of our business, but we also are subject to fuel surcharges from trucking companies because the goods that we provide come into our businesses and then we redeliver them.

I understand totally why these individuals have to impose fuel surcharges. They have to run their businesses as well. But we have seen our manufacturers add three to five percent to our cost of goods in the last two years and that is another pressure on our operating cost.

So, as you can see, we are in a squeezed situation. We can't increase our revenues, increase our prices, but our operating costs are increasing at an alarming rate.

So I thank you very much for this opportunity. And hopefully we can see some solutions in the near future.

[The prepared statement of Mr. Gilberti may be found in the Appendix on page 52.]

Chairman ALTMIRE. Thank you, Mr. Gilberti. And thanks to the entire panel.

We will now open up for questions. I wanted to first direct my question to Dr. Orza. I was wondering about the small number of U.S. businesses utilizing traditional energy sources. Rising costs will have a detrimental impact on growth given the number of small U.S. businesses.

Do you have information on how energy prices impact small businesses compared to large businesses? And if you could provide us with a comparison between the expenditures and percent of total revenues, for example, small businesses allocate to energy resources compared to their larger business counterparts?

Mr. ORZA. I think all of us would tell you that in small business, we do our financial statements to the hundredth of a percent because those hundredths of percents turn out to be a point, sometimes two points, profit or cost.

And clearly with small business, you don't have the leverage to negotiate for product pricing, for fuel pricing, for insurance costs or anything else, much less labor cost. And, as a result, you are wholly held hostage to something that is completely out of your control, like fuel prices.

As I showed you on how the country is dealing with gas prices in virtually every section of the country, everybody is driving less. Well, those are typically consumers that are driving less. That means they are using all of the services that are delivered by a trucking company, by a plumbing company. It is simply gas on the fire.

I would go back to tell you again OPEC still controls an awful lot of this industry. Many of the states represented by the Committee, Pennsylvania, Oklahoma, Texas, are oil and gas states, which a few years ago were suffering. At $20 a barrel, it wasn't worth the trouble to go get some of the very deep gas and oil.

Pennsylvania right now is a boon state again for natural gas. It is worth going after. That will build an economy. Along the way we have to make sure we don't bankrupt the businesses who can't afford the increases they are suffering. So it is clearly exacerbating the problem, certainly by trucking companies. They pay it immediately.

There is one simple solution. And that is to suspend federal gas taxes or diesel taxes for some period of time. You know, Congress decided to send 117 million households a rebate check. And it took almost five months. We won't get them until May. You could suspend gas taxes immediately and help these businesses today.

Chairman ALTMIRE. Thank you.

Mr. Williford, I understand from your comments that contractors sometimes place competitive bids on projects, which is something that this Committee has an intense interest in. And you mentioned the need to estimate and project numbers when placing a bid. And I assume you factor fuel prices into that bid.

And I was wondering if you can give the Committee an idea of how you address the volatility of fuel costs when you prepare your long-term bids.

Mr. WILLIFORD. Mr. Chairman, I don't mean to be flippant, but you hope. You hope that you got it right. Normally it takes us about six months after we bid and are awarded a project for us to mobilize and get on site. Now, that is on the construction side of our business.

So, therefore, if we bid a project and are awarded that project today and we have factored into our burden for that project a price of $3.30 a gallon, if that goes to 3.50 in 6 months, then we are actually on the project and expending funds for that project, then the project is already a loser.

So you do the best you can. You look out into the future and take the estimates that some of these folks have referred to and hope that you get it right. And if you don't, then, as I said, you are already dealing with a loser.

Chairman ALTMIRE. Mr. Graff, you talked about the direct impact that gas prices have, which is obvious for everyone to see, but I appreciate you continuing to talk about the problem. But I am wondering about indirect gas prices because when you think of a trucking company, you think, well, the price of gas goes up. And, therefore, you have to pay more for gas, and that is going to hit your bottom line.

But you are getting hit in other ways on gas prices also. And I was wondering if you could talk about the indirect ways the increase in fuel prices are hurting your business.

Mr. GRAFF. The indirect ways, I mean, you have all of your expenses from your hospitalization, from your Workmen's Compensation to your health insurance. Everything that can be cut you are looking at and you are cutting. It was spoken here before. Health insurance. Employees have got to pay more for their health insurance.

It all goes back to the trickle-down effect, the domino effect. We are cutting everything we can actually cut in our industry to stay alive.

We need help in so many different ways. It was talked about suspending the state tax, the federal tax. Well, the governments don't want to hear this. They don't want to hear it because of their highway projects. They are not going to have anybody traveling these highways if it continues on the way it is.

I mean, we need help in a lot of ways. And I am asking for this government to help. Put a panel together. Do something. Our industry is dying by the day. We have got to have help.

Chairman ALTMIRE. Thank you.

And I am going to temporarily turn the chairmanship over to Mr. Gonzaez. And I am going to yield to the gentle woman from Oklahoma for her five minutes of questioning. I will be back.

Ms. FALLIN. Thank you, Mr. Chairman.

I would like to address my first question to John, if I might. You were talking about some of the renewable resources and alternative fuels and ethanol, in particular. In your analysis of ethanol, when we look at the cost as a nation of ethanol compared to producing gasoline, can you tell me if there is a cost difference between getting that product to market?

Mr. URBANCHUK. Well, the cost of getting the product to the market?

Ms. FALLIN. Producing it.

Mr. URBANCHUK. Well, the cost of producing obviously today gasoline and diesel fuel are refined from petroleum. The single largest cost in producing those refined products is crude oil prices. When you are looking at ethanol or you are looking at biodiesel, again, the feed stock of whether it is corn or sugar in the case of other countries or soybean oil is the most significant cost item in producing those products as well.

The biofuels industry in the United States is still relatively young. The relative cost of production for ethanol versus gasoline is still somewhat higher than gasoline is.

We do have federal incentives in place, a volumetric ethanol excise tax credit, the VEETC, which provides a credit to the blender who buys ethanol to blend with gasoline and helps keep that product competitive with gasoline.

The real issue here is perhaps not so much today's basic economics, which clearly I believe are favoring the use of biofuels, but as we move forward into the future if we increase our reliance and dependence on producing biofuels and the role that they play, those prices are going to come down. It is going to retain its competitiveness and improve the economic benefit to consumers across the board.

Ms. FALLIN. That was my question, I guess, because I have heard that it is like three to one for production costs of ethanol to gasoline and just actually producing it and getting it to the marketplace. It is more expensive.

Mr. URBANCHUK. It is more expensive. I don't think it is three to one. I think the number is probably closer to one and a half, two to one today in terms of just flat-out production and distribution costs.

Ms. FALLIN. But if you add in the tax incentives that we have, why does that cause the different--

Mr. URBANCHUK. If you add the tax incentives that are in place for ethanol--

Ms. FALLIN. It may be what the three to one is.

Mr. URBANCHUK. --today, then, as we indicated, when you take a look at the costs of producing, distributing; that is, from the refinery to the consumer, when you blend 10 percent ethanol with gasoline in 2007, it provided a 10.3 percent benefit to consumers.

The price of ethanol-blended gasoline was 10.3 cents lower than it would have been without the use of ethanol. And we expect that that number is going to be about ten cents in 2008 as well. And when you move forward through time--and we have looked at this through 2017--we are looking at an average benefit that is somewhere in the area of about eight cents a gallon, so when you take all factors into consideration, production and distribution for gasoline, and compare that with production and distribution of ethanol in the blending of those, the consumer benefits from the use of ethanol, biofuels.

Ms. FALLIN. And I am all for looking at other sources of energy and biodiesel and renewable energy, all of the things that we need to be looking at.

Dr. Orza, if I could ask you a question? I know as an economics expert, can you talk just a little bit about what we can do to reduce the price of gasoline and costs on businesses in America?

Mr. ORZA. Well, clearly alternative fuels, like ethanol, are a part of the solution, but they are only part of the solution. And there is a side bar to that that is a problem. We are one of the few countries in the world wealthy enough to actually use corn, which the rest of the world uses for food to use for fuel.

One of the reasons you are seeing an increase in food prices--you can ask any American household--is because we are now using corn as a fuel alternative as well as a food source. And that is really affecting the price of milk and beef and everything else.

The solutions are--and, frankly, it is pretty simple. The world is driven by oil, like it or not. And it is going to be driven by oil for a long, long time. We just can't stop all the cars and trucks we have.

By the way, we are talking about $3 a gallon gas. We are actually talking about $4 a gallon diesel, which really affects trucking.

The long-term solution is increased exploration, more drilling because the world is driven by oil and gas. And, as I said earlier, in Pennsylvania now wells that were locked up for a long time just weren't worth the trouble. As in Oklahoma, farmers and ranchers, who quite often made money off the wells that paid them royalties on their property, that money now is subsidizing the cost of farming and ranching. It is also subsidizing all the products that they buy are delivered by trucks.

So, again, part of the problem also has a solution that causes another problem. The only real long-term solution is to increase production and define alternatives. The research for alternatives is being funded by the profits that oil and gas companies make. So while we may not like this, that is the long-term solution to a very difficult short-term problem.

Ms. FALLIN. Thank you so much, Mr. Chairman. I will yield back my time.

Mr. GONZAEZ. [Presiding] Thank you very much.

The Chair is going to recognize himself for five minutes. The first thing I want to explain is you will see us looking at our Blackberries throughout. That seems to be rude, and sometimes it is. But sometimes we are actually asking our staffs to get some information to us so we can ask a question that becomes quite relevant during your remarks. And I do have one here that I am going to read to you in a minute.

Secondly, I want to make the observation that many members of the Committee are somewhat familiar with your situations. And the reason for that is that Chairwoman Velázquez has these roundtable breakfasts. And we have different small business representatives there.

So we are familiar with the heating, cooling, and plumbing industry and what is going on there. Dr. Orza, we have been familiar with the spillover and domino effect of higher cost of fuels as it affects small business.

Mr. Urbanchuk, believe it or not, we have had a hearing on the opportunities presented to small businesses in the expanding biofuels and alternative fuel fields.

Mr. Graff, we have heard from the truckers. We have heard from the independents. I am going to be asking you a question of why independents are treated differently, let's say, than the big outfits.

And, Mr. Gilberti, believe me, we do know about durable medical equipment and competitive bidding. As a matter of fact, we just had a roundtable on that. So I think that Chairwoman Velázquez was way ahead of us all.

It is important today, and I have heard some long-term solutions here. Dr. Orza has touched on it, Mr. Urbanchuk. I am from Texas. You know I am an oil and gas guy. And I have got my colleague to my left. And I have Oklahoma. So you know where we are coming from many times.

But I think Dr. Orza is correct. It is a wide-ranging portfolio of fuel sources and not to, I guess, promote one at the expense of another. And we haven't been doing that. And we can go on and on with that.

But the truth is when it comes to ethanol, how many E85 stations do we really have out there? What we have today, we don't have the infrastructure. And these gentlemen here can't wait. They won't be in business by the time that we have that kind of infrastructure, when we finally get the cost of producing ethanol at a reasonable price and so on.

So I guess what I really want to concentrate on is going to be what can we do immediately? And we have had a couple of suggestions here, such as waiving or reducing the tax today on diesel, for instance, because that is the fuel of choice for most commercial enterprises out there.

I don't know how realistic that is at the state level, the federal level, and so on. I just don't see that actually happening. And for you to be able to pass it along, whether you are going to have surcharges built in your contracts, that is another issue.

The question is, can we help you somehow in expensing it out? Is there something further that this government can do to help you in our tax policies that might assist you immediately improving on what you have available to you today?

And I don't know what we do about fuel-efficient vehicles. To be honest with you, I am not real sure there are any out there for commercial use. I don't see hybrids out there when it comes to light or heavy duty trucks. I mean, none of that is happening. So it is the here and now.

So, Mr. Williford, is there anything that the federal government can do immediately? And that is absent, you know, waiving all the taxes and all that, but is there anything with our tax code that we can do to assist you?

Mr. WILLIFORD. Representative Gonzaez, I, frankly, don't know. I think that the immediate possible remedy that you could use in terms of tax policy is perhaps credits for purchasing hybrids.

Now, you mentioned that there aren't any for commercial use. That is, in fact, I believe correct. However, we probably have 40 or 50 project management and overhead vehicles that we use that certainly it is not cost-efficient right now for us to purchase a hybrid. Obviously if that were made more attractive, we would consider that. Obviously that would be in terms of conservation efforts, but in terms of other items that could consider in terms of tax policy, I just don't know.

Mr. GONZAEZ. Thank you.

Dr. Orza, any suggestions of what we can do immediately?

Mr. ORZA. I think, unfortunately, the answer is no. You are hearing people tell you they have cash flow problems today. So tax policy changes that they tax advantage of at the end of the year when they file their income taxes or whatever, or quarterly taxes, doesn't solve a $3 to $4 a gallon gas or diesel problem immediately. And I think you are hearing that, you know, from the airline industries on down to trucking companies and small businesses that have to drive to do their job.

The hybrid solution isn't a solution, first of all, that costs five, six, seven thousand dollars more than a regular car or truck. So whatever you save on gas, you spend up front. That didn't solve anything. And, by the way, the trucking companies and car companies aren't producing enough of them to even fill the demand that there is.

I think, again--and I would refer back to Congress decided to give everybody a $600 rebate, but we voted on it back in January or February. We won't see checks until May. These people can't wait five or six months with gas prices where they are. They need help immediately. And that is why I suggest that the real solution, the near-term solution, is suspension of some gas or fuel taxes because it is an immediate impact on their cash flow.

Mr. GONZAEZ. The only problem with that is the duration of that time out and the fact that along the way, you reimpose it. What are we waiting for to happen in that period of time that will promote some sort of solution for them in the interim? I don't have that answer.

And I hate to disappoint you with that, but I think there has to be some sort of immediate relief. And I am not sure that you are going to get it with some sort of price controls. I don't know if anyone is going to go and suspend the gas tax. I think that needs to be viewed, actually, realistically.

Mr. Urbanchuk, I know that you are into bios and so on, but these individuals here really can't wait for the development of the technology and the distribution system that would be required to aid them in a lower cost of fuel.

Mr. URBANCHUK. Well, I think you provided part of the answer yourself, along with Dr. Orza. I think in the short-term, there is very, very little that can be done other than emergency actions, such as reducing or eliminating part of the federal tax, whether it is going to be done at the states levels.

There are all kinds of problems associated with that. Again, any time you take one action, there are countervailing actions on the other side that create additional problems that have to be analyzed. But that is short term. As you say, businesses can't wait for the intermediate term.

The solution to this is a medium to long- term solution of: one, addressing the issue of demand, which is being done through the marketplace clearly. And technology is improving that but expanding supply. And that is where the issue of biofuels comes into play because if you use ten percent ethanol or you use biodiesel, you are increasing expanding the supply of motor fuel available.

Today ten percent ethanol is the standard. Whether we get to E85 or not is an open question. I am not sure the E85 may be the answer. Maybe moving from 10 percent to 15 percent to 20 percent blends of ethanol on a wider basis around the country would expand that availability of motor fuel and help relieve pressure on prices.

That is going to take obviously some time to happen. That is an intermediate approach to that. So it is really a combination of the short-term emergency action and then expanding supply as we move forward, both by also addressing the issue of domestic production of oil that is domestic drilling.

But, frankly, we have a problem in this country as even if we had more crude oil, we don't have the capacity to turn it into finished products. So we also have to move aggressively at the federal and the state level.

Mr. GONZAEZ. My time is running out. And I want to make sure I give Mr. Graff and Mr. Gilberti an opportunity. I am just talking about the here and now. What are we going to do immediately? I know you are saying suspend the tax, and that is about it.

Mr. Graff, real quick, I just want to tell you that you asked a question, why is diesel costing so much more? And in San Antonio, we have got Valero and Tesoro. They are refiners. And I just want to tell you basically what they are always telling us. Price of crude is still a large factor.

Number two, process and refining of diesel is now more expensive than processing gasoline. This is due to the fact that diesel has to meet new low-sulfur specifications and it is a more expensive process to meet those specifications.

Diesel has been more expensive generally since 2004. Higher federal excise tax on diesel, six cents per gallon, but truly cost of oil and refining costs to meet low-sulfur are the largest drivers of cost diesel. So I thought I would tell you that was what I was doing with my Blackberry.

But what do you want us to do? Because it is really the trucking industry that is hurting the most.

Mr. GRAFF. Eliminate it. Eliminate your refining process for your tree-huggers, the ones that are pushing it. Get rid of your ultra low-sulfur diesel. Make it one diesel. And eliminate the process.

Right there they told you that is the reason that the diesel is higher than the gasoline. Eliminate it. Eliminate that process. We didn't have it for years. And now you are seeing these process. They are telling you that is why diesel is moire than gas. Eliminate the process today.

Mr. GONZAEZ. Mr. Gilberti?

Mr. GILBERTI. I can't speak to the refining cost of diesel. Our trucks don't use diesel. We use generally smaller vehicles and--

Mr. GONZAEZ. What can we do for you to assist you in the short term? Are we--

Mr. GILBERTI. A little selfishly in our industry because our reimbursement is regulated by Medicare and Medicaid. We could hope for some sort of maybe fuel allowance in those reimbursement rates. And that doesn't help some of these other industries, but at least in our industry, it would help us.

Mr. GONZAEZ. Well, thank you very much.

I would now recognize the gentleman from Texas for five minutes, Mr. Gohmert.

Mr. GOHMERT. Thank you, Mr. Chairman. Thanks for having this hearing. I will tell you, one of the things I like about serving on this Committee is the reasonableness of the people on both sides of the aisle and their sensitivity towards small business and the fact that it produces 70 percent of the new jobs in the United States.

Now, I am going to try to go back and pull together things I have been hearing. For one thing, one comment was made that speculation has driven some of the more recent rises in the price of gasoline and oil.

One of the things that affects speculation is when the marketplace sees that laws are being passed that put more and more of our oil and gas off limits, shale off limit. And I am on the Natural Resources Committee. It has been breaking my heart for the last 15 months. Bills that we keep passing in that Committee, I wouldn't necessarily call them tree-huggers. I know they love the world, they love the country, but they have the idea that the higher the price of gasoline, then the less people will use and, therefore, the better it will be for the country and world.

And I appreciate that. I just don't appreciate passing bills that cause it to go up that put more and more of our oil and gas off limits and then blaming people on my side of the aisle for the rising cost in oil and gas. But what you see the market doing, it seems, is when they see us passing these laws, putting more off limits, then they end up, the speculation is, "Oops. The price is going to go up." And that drives the speculation up. Some I have heard estimate that we may have 20 percent of the price of oil, maybe more, that is strictly due to speculation driving that price up.

Dr. Orza, I appreciated hearing you say what I was concerned about and what I have come to be more aware of and shown figures that the vast majority of these huge profits that some would say were windfall profits are being reinvested in going after more energy.

But, my friend Mr. Gonzaez, I didn't hear anything he said that I disagreed with. We want to help. I have concerns. I would love to see the gas tax reduced or eliminated. The problem with that is then you start developing road and infrastructure problems and we get too far behind. And we are already behind. You guys know that. We have problems with our highways. We are not keeping up.

And here we do have a lot of the choir: Texas, Oklahoma, Pennsylvania, Louisiana. Those states are trying to produce energy, trying to help the nation.

I filed a bill in the last Congress called the State Hypocrisy Reform Act that simply said--and I was just wanting to help our states that are being hypocrites by saying if you do not allow oil or gas exploration or production in your state or in your contiguous coastal areas, then you are prohibited from importing any oil or gas from states that do. You know, that way that will allow them to not be so hypocritical.

And one of my friends from Florida said that helped make the point in Florida that if they are going to keep sucking energy out of other states, they ought to really allow it to be produced.

I didn't realize until I got on the Resources Committee how much natural gas we have, vast amounts, off the West Coast, East Coast, Gulf that is not allowed to be tapped, Great Lakes. The good news is Canada is apparently tapping it. And they are willing to sell us our gas back.

Cuba is allowing drilling off its coast to Russia, China. I think Venezuela is going to get in there. And I will bet they are going to be willing to sell us our own gas back. But it is ridiculous to put all of that off limits.

I have concerns when I hear government needs to step in and dictate rates because that takes me back to the late '70s, when we had the long gas lines. But I love your comment about would diesel just eliminate the extra process.

We had a refinery in my town growing up. And they said diesel will always be cheaper because it is lower on the cracking tower, doesn't cost as much to produce and, therefore, it will be cheaper. And we keep adding all of these requirements.

So I appreciated your comments there. That might be something we could do quickly. And if the market sees us taking those actions, it might cut down and lower the speculation there as well.

This hearing, we are so limited in what we can do and say. I just challenge you to think about these things, what won't hurt our highways, what won't hurt the economy, what won't create gas lines. It doesn't have to end at this hearing.

You can submit us things in writing that we can consider, put together in bills because what I--I am not really kidding. This Committee takes small business propositions very seriously. And you will often see it being made into a law that is filed and getting support behind it.

Let me just get comments. You had said you would like to see the auxiliary power unit so diesel rigs won't have to stay beside the road. My concern is that is going to have to be paid for somewhere. We probably have to add a tax to get that done.

Do you see that as an immediate help?

Mr. GRAFF. Yes. I see it within a year. I would be really shocked and happy to see the numbers. What it is, for anyone that doesn't know what an auxiliary power unit is, it is a small diesel engine, maybe this big, that mounts on a side frame of the tractor-trailer.

These drivers are required to have so many hours off within the day. When they pull off the road, that motor, the big engine in the truck, no longer runs. Okay? It is an auxiliary generator, diesel-powered, that supplies heat and air conditioning to the truck. The big motor no longer runs. Emissions take the big dive. The fuel usage takes the big dive.

On the average cost right now, there is $7,000 per unit per truck. I don't know if we could get a tax credit for those. If we could get some kind of federal grants, whatever, the numbers in the fuel, less amount of fuel used, would be great.

Mr. GOHMERT. Well, I see my time has expired, but I would just encourage you all to keep thinking. We have got some smart people here. And please submit us things in writing that you see could be hard and fast things we could do and do quickly.

And I have worked with our Chairman before on bills. And I appreciate his common sense approach and would like to do that in the future.

Thank you.

Chairman ALTMIRE. [Presiding] Thank you, Mr. Gohmert, the previous ranking member of this Committee.

And I would now recognize the gentleman from Indiana, my good friend Mr. Ellsworth, for five minutes.

Mr. ELLSWORTH. I think there is a red light on there. Thank you, Mr. Chairman. I apologize for being late. Armed Services, as you know, has General Petraeus and the ambassador in.

Really, the only question I had in my review of the testimony before this was for Mr. Graff. Mr. Graff, I get a lot of trucking firms, especially small trucking firms, coming to my office in the district and talking about the proposal.

And I think you mentioned in your written testimony about the fuel surcharge standard and helping small trucking companies compete with their larger counterparts. I don't know if that has been talked about today, but could you go into that in a little more detail, how that would assist the small trucking firms, perhaps what the opinion of the larger trucking firms is and just explore that a little more for me, please?

Mr. GRAFF. The question was asked a little while ago about the difference between the fuel surcharges. What it is, you have your major carriers, which, by the way, only haul about ten percent of the freight. Okay?

What they do, they are big enough and large enough to go to your big manufacturing companies and distribute their freight nationally. So they will go in and set their rates, their transportation rate, along with their fuel surcharge rates.

What happens to the rest of the industry is this freight is sent out to brokers. Brokers are all nationally little closet, broom closet, people or whatever. And what they do is these companies give all their overflow freight to these brokers. The brokers contact carriers, such as me, and says, "I have a load that goes point A to B. Here is my rate." It is a combined rate.

What they are doing, why I would like to see some kind of guidance from the government is what they are doing is snagging part of the fuel surcharge and not passing it on to the trucking companies. Their profits have been greater. Ours are a lot less.

And that is why I said I don't want to see any more government involvement. I think the government needs to step in here and find out where all of these fuel surcharges are going because everybody's fuel surcharge should be the same. It is the same.

Are the carriers getting it? No. Your large carriers? Yes. Your small brokers, your small trucking companies are not getting it. That is the difference between the fuel surcharges. And that is what is happening.

Mr. ELLSWORTH. Can you argue it from the other side, from the larger trucking firms, or would the larger trucking firms be on the same page with you or do I need to say what the brokers would say or is it better?

Mr. GRAFF. Okay. Here is the issue--and this is what has happened to the large trucking companies, your major carriers. Last year they went in. You can negotiate a contract for a year. Okay? And they have an escalated cost, a scale. Last year they negotiated, "Okay. If fuel goes up to $3.10, here is the max. This is what we will lock you in for a year."

The large companies were sitting there saying, "We're maxxed out. Our fuel surcharge has been maxxed out for six months now. We're capped." Now they are starting to lose money.

The brokers go in there, "Hey, here is our fuel surcharge. We have a scale." Department of Energy puts it out every Monday. Okay? And here is the real kicker to it. They put it out every Monday.

The brokers go out and say, "Okay. Here it is. Here is what it is going to cost. So it is not going to cost that manufacturing company a little more. But the brokers are not passing all the money on to the small companies." It is a hidden cost that they are hiding. It is not that they are able to pocket part of the money.

Mr. ELLSWORTH. Just as a follow-up, the impacts, long-run competition, long-term impact on small truckers?

Mr. GRAFF. Long-term impact? Your small companies are going out of business daily. They are going out of business. Your big companies within two, three years are going to dictate to this whole country what it is going to be. And it is going to be worse than the Hoffa days ever were. They are going to tell you exactly what it is going to be.

Mr. ELLSWORTH. Anybody else want to comment on my question from the panel? I am sorry I didn't review everybody's testimony.

Mr. ORZA. I would make a point on that. You know, Southwest Airlines has done pretty well over the last couple of years because they had futures contracts. But that is a gamble.

Sooner or later, whoever promised them to sell them fuel at some reduced price based on banking on tomorrow would be better than today, sooner or later some of those guys trip. And it will happen to the trucking business also.

Somebody will have a contract to sell a big supplier or big user fuel at X price, but they won't be able to afford to buy it themselves. And then you will see--do you know what is happening in subprime mortgages? That can happen in fuel also, where somebody makes the promise and isn't qualified to make the deal happen.

So it is a huge problem for big trucking companies. It is substantially more of a difficult problem for small companies because they don't even have the wherewithal to negotiate futures the way large companies do.

Mr. ELLSWORTH. Thank you, Mr. Orza.

Mr. Chairman, I don't have any further questions.

Chairman ALTMIRE. Thank the gentleman. And thank you for your attendance.

The gentle woman from Oklahoma has one final question. And then we will adjourn. The gentle woman is recognized.

Ms. FALLIN. All right. Thank you, Mr. Chairman.

I appreciate all of your testimony today. And it has been very helpful, especially to hear from you who are directly affected by the rising cost of fuel prices.

I was intrigued by Mr. Graff's description of technology that could be used during trucks that are idle and how you can save on fuel costs, save on even environmental concerns with a cleaner output from the energy you are using.

But to all of you, do you have any suggestions that we can look at when it comes to businesses and their consumption of energy? And it may be gasoline. It could be diesel or it could be a piece of technology that can be used in your business when you consume energy in any way, shape, or form. It could be in the manufacturing of goods. It could be when you have a truck that is idle and you buy a piece of equipment that will help.

Do you have any ideas of things that we can look at in Congress that would encourage you to use more energy-efficient technology to help reduce energy consumption and lower costs and, of course, help the environment, too? Any of you?

Mr. GRAFF. Well, number one, new equipment, which, unfortunately, it was already pointed out, you can't afford the new equipment. You know yourself if you buy yourself a new automobile, the first couple of years, it is getting better gas mileage. Once it starts wearing out, it's not as good.

The same thing with the transportation industry: newer trucks. Okay? But, I mean, there is one big savings there, but how do you afford it? These carriers can't afford it.

Ms. FALLIN. What would encourage you to be able to afford it that we could do policy-wise?

Mr. GRAFF. Tax breaks.

Ms. FALLIN. Okay.

Mr. GRAFF. Tax breaks, huge tax breaks. You know, somehow at the end of the month, you know, the fare has got to be paid. I mean, it is something that the government would have to look at. Can these people afford it?

Ms. FALLIN. And can any of you give me a specific example of a tax credit that would be beneficial to help you reduce energy consumption?

Mr. ORZA. I don't think there is anything in the near term or even over the next year or two that would have a measurable impact on businesses that are struggling today.

One thing Mr. Graff might tell you is what are the miles per gallon for an 18-wheeler?

Mr. GRAFF. Eighteen-wheeler, anywhere from between 3.9 to--we haul heavy. We are in the beer industry. So we are at 180,000 pounds, 4 and a half miles will go to 3.9 to maybe 6. I would say the average is probably five something per mile.

Whether you can get on those industries, the manufacturing industries and the trucks, the way the government has got on the automobile manufacturers to increase their fuel mileage might be something you could look at.

Mr. ORZA. Congressman, if I may make a couple of quick points that really are kind of outside, but they are big picture. You know, the U.S. energy industry has led the world for 100 years.

That is now being challenged by the growth that is occurring in China and Russia. Both of them now are in the energy business. And they are challenging us. And it is showing up in their political power, their military power, and their economic power.

No one wants more pollution. There isn't an energy company or a trucking company or any of us that want more pollution. But we have got to drill. We have got to explore. And that does mean off the coast, and it probably eventually does mean new places like Alaska.

It is good that we are using up Saudi oil before we use our own, but we are going to have to use our own as well. The industry has been pretty good in terms of drilling and cleanliness and spills and things of that sort. There are exceptions, but generally speaking we have been good at it.

You mentioned earlier we haven't built a refinery in this country in a long time. That is a solution, but it is a long-term solution.

And, finally--forgive me. I don't remember the exact numbers, but somewhere over the next 10 or 15 years, China and India will add one billion new cars to the roadways. What does that do to the price of oil or gas or diesel? And we have got to be planning for that because we could be put out of business by nations that do have the different economy that is more socialistic and will support what they need to do to become military or economic powers at our expense.

Ms. FALLIN. You mentioned in your testimony, Dr. Orza, something about the Manhattan Project. And I think we didn't get to that portion of your testimony. Do you want to tell us real quickly what that means?

Dr. ORZA. Yes. You know, I am 57. So I don't remember the Manhattan Project, but I do know that there was a point at which the government said to the most brilliant people in America and around the world, "We need to do something. We need a way to win a war, to end a war." This is a different kind of war. There is enough genius in this country to find great alternative solutions for energy.

We get some comfort from knowing that a lot of this Committee comes from Texas, Pennsylvania, Oklahoma, you know, oil and gas states. Our American industry and our leaders of those companies and the people coming out of our colleges and universities can find alternatives.

There are solutions. There are good ones. France figured out a long time ago, like it or not, nuclear works. And they have done it very, very well in France. We are afraid of some of these things, but we haven't been investing the money to make America energy-independent.

Richard Nixon talked about it. It is the first time I remember hearing about it. That is nearly 30 years ago. We have got to invest the time and money. And oil companies at 100 bucks a barrel are now spending the money to find alternatives because they know as well this is a dead end street at some point. And we need alternatives.

Mr. URBANCHUK. Yes. Just to add to that, I think it is very, very important that we recognize that we are in a truly global economy and that what happens in other countries, and China and India particularly, is examples of rapidly growing and developing, literally moving from bicycles to internal combustion engines are putting tremendous pressure on resources globally. That means that we do need to move aggressively in developing new technology, not only in the area of biofuels but in the area of hydrogen and other alternatives.

And there are people working on that. And we need continued incentives to stimulate that work, but we also need additional exploration and use of our own resources. And at the same time, we need to build that capacity to turn those resources into finished products.

So it is a broad range of efforts that all have to move forward at the same time. The market is going to determine where we go with regard to those. And government can play a role in that. But the best thing government can do is, frankly, get out of the land, let businesses work most effectively in making those decisions.

But, again, the problem is what we are talking about here are medium and long-term impacts. And it is sort of like the energy bill, the 2005 energy bill. There is a great deal of criticism of the fact that not much was going to happen about this. And people stopped to forget the fact that if you don't do something, you don't take some concrete first steps, nothing is ever going to get done. Before we know it, we are going to be in that medium and long-term.

So we have to act today. And we have got to take those aggressive steps on all of those fronts simultaneously in order to really address this problem effectively.

Chairman ALTMIRE. Thank you.

And I know I said that that was the last question, but I understand Mr. Ellsworth has another question. So he is recognized for five minutes.

Mr. ELLSWORTH. Thank you, Mr. Chair. I won't take five minutes unless our guests do.

This may be a little non-germane, but just sitting here thinking of Mr. Graff and Mr. Gilberti, did the recent stimulus package that we passed have any--I heard both ways on businesses-- impact in your businesses or the people you represent? Will it help from the business end, maybe not a personal end? Maybe Mr. Williford down there can chime in if we had any effect in that in the people you represent?

Mr. GILBERTI. It may affect my employees a little bit and their ability--one of the problems we have had with fuel prices is employees starting to look elsewhere to go to work because they want to be closer to their employment now because they have to commute. Maybe the stimulus package would be able to put some of that money to fuel to help them stay where they are working.

Mr. ELLSWORTH. I was talking more about, you know, the business equipment and the--I have lost the word that I am looking for. The tax credits, I think Mr. Urbanchuk said that or Dr. Orza, helping with tax credits on the equipment side. So I didn't know if you had any opinions or were getting feedback from that.

I had one trucking representative say, "I can't afford to buy new trucks and depreciate my trucks. I can't afford to buy a truck because I can't make any money in the trucking business." That is what brought it to my mind.

Mr. WILLIFORD. Representative Ellsworth, the accelerated depreciation has helped us some. But to sort of sidestep the issue there, there are things that the small business community and those who are interested in small business can do, sort of like Mr. Urbanchuk mentioned, if the government could step out of the way just a little bit, reduce the regulatory burden, the recordkeeping requirements on small business.

Tort reform. In a former life, I was an attorney. So I know of what I speak. You know, that would be a big help. And I know that there has been pending in Congress before an effort for the government to withhold three percent on contractors for all of their contracts. The average profit, sort of like Mr. Graff said, the average profit for contractors is three percent. So you will be taking our profits. And I urge you all to oppose that with all your might.

Mr. ELLSWORTH. Thank you, Mr. Chair. Thank you all for your testimony.

Chairman ALTMIRE. Thank you again for telling your stories. This helps us work through the issue and look at what the next steps might be. This is the first of what we hope will be an ongoing dialogue with each of you. And please feel free to contact any of us individually or through the Committee with any concerns or recommendations that you might have moving forward.

At this time I ask unanimous consent that members will have five days to submit statements and supporting materials for the record. Without objection, so ordered.

The hearing is now adjourned.

[Whereupon, at 11:27 a.m., the foregoing matter was concluded.]

JASON ALTMIRE, Pennsylvania
Chairman

MARY FALLIN, Oklahoma
Ranking Member

Congress of the United States
U.S. House of Representatives
Committee on Small Business
Subcommittee on Investigations and Oversight
2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
of the
Honorable Jason Altmire, Chairman
House Committee on Small Business,
Subcommittee on Investigations and Oversight

"The Impact of Increasing Gas Prices on Small Businesses"
Wednesday, April 9, 2008

Gasoline and diesel fuel prices have been climbing at unprecedented rates. Today, we will hear how these rising costs are negatively impacting our nation's entrepreneurs.

With small firms being the nation's single largest employer, we need to do everything we can to make sure they thrive.

Just a couple weeks ago, oil reached an all time high of $111.00 a barrel. According to AAA, the national average for a gallon of gasoline is now a record $3.33. In my western Pennsylvania district, I have seen gas prices as high as $4.00 a gallon. I hope today's timely hearing will give us a better understanding of how small firms are being impacted by these rising energy prices.

As I am sure we will hear from our panel of witnesses, the problem is widespread and impacts both consumers and small businesses. Continued energy price hikes mean sacrifices in a local business's bottom line. These costs can determine whether a construction firm is able to invest in a new storage facility, or whether a family farmer can afford fertilizer for this year's crops.

The situation creates hardships in virtually every industry throughout the nation. While it has hit some sectors harder than others, it affects businesses ranging from hotels and restaurants to the local grocery store that has to raise the price of bread that needy families depend on.

Today, we will hear from small businesses coping with rising energy costs. We also have experts with us who will discuss the increasing demand, limited supplies and market conditions associated with the price increases, and what solutions are available to combat this growing problem.

Unfortunately, these trends deflate small business owners' expectations for expansion. In fact, two-thirds of entrepreneurs are anticipating lower profits this year when compared to previous years due in large part to increased energy costs.

Also at issue are small businesses that use energy resources on a daily basis to meet their transportation needs. Take our nation's trucking companies. The trucking industry is on pace to spend an unprecedented $135 billion on diesel costs alone. The amount is $22 billion more than what was reported just last year. Such rapidly rising costs pose a severe long-term challenge to U.S. small businesses.

There are few options when it comes to confronting these costs as many companies are simply unable to reduce their energy consumption. Rising costs usually result in less available capital to expand small businesses, which spells bad news for our economy as a whole.

To help ease the burden of increasing costs, we must consider and enact long term solutions. There needs to be continued investment in renewable energy, and recognition that alternative fuel sources are a vital part of addressing this problem.

We also need to continue providing business owners with the necessary resources to develop and purchase greater energy efficient technologies.
That is exactly what this Committee did last year by shepherding the Small Energy Efficient Businesses Act (SEEBA) through Congress. Now law, SEEBA assists small businesses through investment in new, renewable and green technologies.

The law also expands traditional SBA loan programs by broadening their criteria to help address energy needs. While this may not be the "catch-all" solution, SEEBA took decisive steps toward addressing the energy needs of small firms. We intend to continue that work.

Our nation's entrepreneurs deserve our every effort to provide them with the tools they need. My hope is that today's hearing will be an opportunity to discuss some of these challenges and offer solutions to assist our country's small businesses in dealing with the current, grim circumstances.

U.S. House of Representatives

SMALL BUSINESS COMMITTEE

Wednesday, April 09, 2008

Subcommittee on Contracting and Technology

Opening Statement of Ranking Member Mary Fallin

The Impact of Rising Gas Prices on American's Small Business

Good morning. Thank you, Mr. Chairman, for holding this hearing on "the Impact of Rising Gas Prices on American's Small Business." Just like consumers, small business owners are feeling the financial squeeze of rising energy costs. In most cases, these small businesses are reexamining their business plans, future investments, bottom line profitability and job creation. It is imperative for Congress to investigate possible steps to lower fuel costs for small business, encourage the use of energy conservation measures, bolster our national economy, and reduce our dependency on energy from foreign markets.

I'd like to extend a special thanks to each of our witnesses who have taken the time to provide this subcommittee with their testimony. I would also especially like to welcome fellow Oklahoman Dr. Vince Orza, a small business owner, academic, and television commentator. Welcome to the Small Business Subcommittee on Investigations and Oversight, Dr. Orza; I am sure we will find your expertise on small business extremely helpful.

Small businesses are the economic engine that drives our economy and job creation. Small businesses feed our families and provide goods and services to our community. They serve as seeds of innovation, producing 13 to 14 times more patents per employee than large firms. Small businesses participate in all major industries and represent 99.7 percent of all employers and employ 50 percent of all private sector workers. In addition, 39 percent of high tech workers such as scientists, engineers, and computer workers are employed by small business.

Rising gasoline and diesel fuel prices are impacting the economy from individual consumers who buy from small businesses to international conglomerates who do business with them. Small businesses are consistently ranked as one of the hardest-hit sectors when it comes to rising fuel prices. These rising costs have profoundly impacted the day to day routine of running a business. Whether it's the cost of transportation of goods and services, the operation of machinery, mileage in employee expense reports, delayed receivables, or tighter access to capital and loans, small businesses are feeling the pinch.

Many large firms can pass on the increased fuel costs to their customers. Because small business concerns often operate on razor-thin margins and very competitive pricing, passing on the fuel cost increase to their customers could result in loss-of-sales and, in the long term, going out of business. Some small businesses have found ways to absorb fuel costs and employ energy conservation steps. However, the practice of absorbing fuel costs cannot be sustained in the long-term. The impact of high fuel costs upon some small businesses like trucking and charter bus companies can be greater than other market segments. Rising fuel costs have also become a barrier to entry for people planning to start a new small business.

This nation was built on the backs of hard working small business owners. We have benefited greatly from a rich history of American innovation and entrepreneurial spirit. We must now do all we can as a nation to support our small business owners and maintain an economic environment that is vibrant and rewards hard work and encourages sound investment.

Mr. Chairman, I look forward to working with you on this important issue. Again, I thank each of you for being here today and I yield back the balance of my time.

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"THE IMPACT OF RISING GAS PRICES ON AMERICA'S SMALL BUSINESSES"

TESTIMONY OF TIM WILLIFORD

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
HOUSE SMALL BUSINESS COMMITTEE
SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT

April 9, 2008
10:00 a.m.
Room 1539, Longworth House Office Building

The Honorable Jason Altmire (PA-4), Chairman
The Honorable Louie Gohmert (TX-1) Ranking Minority Member

Celebrate The Past, Join Our Future.

180 S. Washington Street • Falls Church, VA 22046 • 1-800-533-7694 • 703-237-8100 • Fax 703-237-7442 •
www.phccweb.org • naphcc@naphcc.org

"The Impact of Rising Gas Prices on America's Small Businesses"

Good Morning. Thank you Chairman Altmire, Ranking Member Gohmert and Members of the Subcommittee, for the opportunity to speak to you today regarding rising fuel prices and the impact this is having on small business.

My name is Tim Williford and I appear before you today as a small business owner and a representative of the over 4000 member companies of the Plumbing-Heating-Cooling Contractors – National Association. I currently serve as Vice President of Finance and Administration for Southern Piping Company, a mechanical contractor founded by my father over 40 years ago in Wilson North Carolina. I also serve as the Chairman of the Government Relations Committee of the PHCC (Plumbing-Heating-Cooling Contractors National Association). PHCC is the oldest trade association in the construction industry and as I mentioned represents over 4000 Plumbing-Heating-Cooling Contractors from around the country, the majority of whom are small business owners.

Anyone who has built or helped to operate a business, particularly a small business, can tell you that it is not an easy proposition. This axiom has never been more true than today. Remaining profitable has become increasingly difficult with the rise in fuel prices that we are currently experiencing.

The construction sector accounts for approximately five (5%) percent of the country's gross domestic product (GDP) and, roughly, the same proportion of the nation's employment. Unfortunately, the recent slowing of the economy has had a profoundly negative impact on all aspects of the nation's construction industry. Data for February showed a decline of .3% in construction spending, making it the fifth straight monthly decline in our industry.

As a result, contractors are searching for ways to trim their overhead costs. These efforts are complicated by the steady increase in gas prices with which contractors are forced to contend.

Over the course of the last few days, PHCC solicited the comments of our members regarding the impact of fuel prices on their operations. The response from our membership was overwhelming. Over 90% of the respondents said that their businesses will suffer this year because of increased fuel costs.

In the past, many service contractors have chosen to add a "fuel surcharge" to their invoices in an effort to offset rising gas prices. Others have simply tried to pass the increases on to consumers in the service billing itself. In either case, my opinion is that consumers have probably reached their limit in terms of paying for the increased costs of contractors.

Indeed, service contractors responding to our query provided us with thoughtful insight. One contractor informed us that in 2005 the service fee they charged customers was $78; in 2006 that was increased to $85. They have held their service fee at $85 for the last 15 months, however an increase will probably be necessary very soon. They would prefer not to increase their prices as to do so would put them at a competitive disadvantage. This contractor notes that they have long standing relationships with their customers and realize that they, too, are dealing with increased costs themselves and don't want to burden them anymore than necessary.

Another PHCC member cited spending $47,000 in 2005 on gas and oil for a fleet of 16 trucks. In 2006, they spent $62,000 and $70,000 in 2007. At the current rate they expect to spend about $88,000 this year. They have only budgeted $66,000 for 2008. Rising gas prices will siphon off $22,000 from the bottom line unless they pass along that increase to customers.

For contractors engaged in construction, the installation of plumbing and mechanical systems, gas prices pose a particular risk. For projects that last for a year or more, contractors must make an informed estimate as to what prices may be in 12 to 15 months. Contractors build this price into their projected overhead costs for a project. However, if the price goes above what they have estimated, they are forced to absorb the cost which can cause a tremendous financial strain. If the price is less, they are able to enjoy a slight profit. It is the proverbial crap shoot.

A representative sample of our construction members commented on the subject as follows:

> "Over the last two years, our company fuel costs have nearly tripled. Our monthly usage in 2006 was $22,000 per month...it is now $55,000 per month! This all happening at a time when the downward price pressure of the market won't allow us to raise our prices! That's $33,000 right off of the bottom line every month...$400,000 per year!"

Another contractor added

> "In January of 2007, our fuel bill was $13,000.00. A year later our bill was $20,000.00. The sad news is we were within about 150 miles of the same mileage in that time frame! Translated into per vehicle and per year it is scary. At 72 vehicles it is a change of $97.00 per vehicle per month. In a year that is a change of $84,000.00 or 53%."

The nature of construction means that contractors are usually heavy consumers of gasoline. Even if a contractor's work is mostly local in nature, he or she must still have fuel to power generators, welders, lifts, and other equipment.

At Southern Piping Company, we spent about $1 million for gas and oil products last year. For 2008, we believe those costs are going to increase by 20% to 40% or between $250,000 and $500,000. As you can see, even a small change in the price of gas can have a significant impact on our budget. Indeed, we know that for every rise of ten cents in the price of gasoline, we will incur an additional $35,000 in overhead.

As a result, we and other contractors are evaluating ways to reduce gasoline consumption. We make every effort to be sure that our vehicles carry full crews to reduce the number of vehicles on the road. We have started using passenger vans to transport some of our crews to jobsites. We are also buying smaller trucks and substituting passenger cars for trucks where we can.

Aside from those measures, our options are limited. Nevertheless, we are considering reducing our contributions to our employees' retirement accounts, increasing the amount that employees must pay for their health insurance, and reducing other employee benefits. These are painful reductions. We have to compete very hard for employees coming from a limited talent pool. One of the ways we compete for those workers is to offer a good benefits package. Rising costs, including gasoline prices, put those benefits in jeopardy.

For example, we recently shelved plans to implement a wellness program for our employees. We have also postponed additional spending on our safety program. We view these initiatives as crucial to our efforts to keeping a safe, healthy, and productive workforce. However, increased fuel prices are forcing us to make a very difficult choice.

In the end, Southern Piping is no different than the rest of PHCC's members and PHCC's members are certainly reflective of small businesses across the country. Gasoline and other petroleum products enable small businesses to remain the backbone of the economy. As gasoline prices climb ever higher, the fortunes of America's small businesses grow more dim, and with them, the fortunes of the economy as a whole.

Thank you for your time and consideration in this matter of mutual interest. I look forward to any questions you may have.

April 9, 2008

Testimony for the House Committee on Small Business:
Subcommittee on Investigations and Oversight:
10:00 a.m. Room 1539 Longworth House Office Building.

"Impact of Rising Gas Prices on America's Small Business"

I want to thank the committee for the privilege of providing some insight into the impact the rising fuel prices are having on small businesses, as well as their employees and consumers. As my vita indicates I have had a diverse career that includes education, journalism, small business and corporate America. I have been both a one man advertising and marketing research firm that grew to 5 employees and turned a restaurant idea into a public company where I served as Chairman & CEO, that operated coast to coast, employing 4000 with sales approaching $2 billion over 22 years.

The simple fact is virtually every product bought or sold in America winds up being transported in a car or truck at some point in the consumption process. Thus, rising gas prices affect everyone and every business. Many distributors have instituted fuel surcharges to cover the increased costs of transportation. Most small businesses are left with no choice but to absorb those costs. Thus fuel prices have a multiplier effect since rising prices affect the cost of doing business for the company as well as the cost of living for the consumer.

Historically, small businesses run thinner margins than do larger competitors. Small businesses have less leverage in negotiating product pricing, transportation, marketing and labor costs. There are two simple choices to reverse declining profits or minimize losses. We either cut costs or increase prices. Historically, small and large businesses attack rising prices or shrinking profits by cutting labor costs because it is one of the largest cost centers for most businesses.

When I was faced with shrinking profits or losses, like many small business owners the first salary I cut was my own.

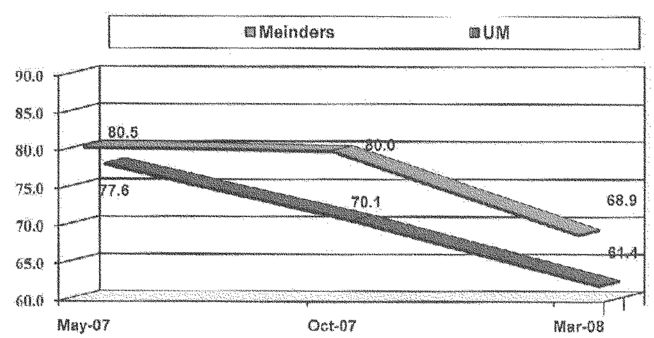
Inasmuch as the American economy is driven by consumer spending, when unemployment increases, consumer spending will likely decline. If you earn less you spend less. The overwhelming number of businesses in the U.S. are small and, thus, most likely to suffer during economic contractions.

The Meinders School of Business at Oklahoma City University conducts a regular series of consumer confidence polling (MSB Survey) to ascertain a scientific measure of consumer attitudes in 16 'Middle-American' states surrounding Oklahoma. The March 13-16, 2008 poll was conducted under the direction of Professor of Economics, Dr. Steven Agee who is also a member of the board of the Oklahoma City Branch of the Federal Reserve Bank of Kansas City.

Polling results were provided to Tom Hoenig, President of the Federal Reserve Bank of Kansas City prior to the start of the FOMC meeting on Tuesday March 18, 2008. (Executive Summary Attached)

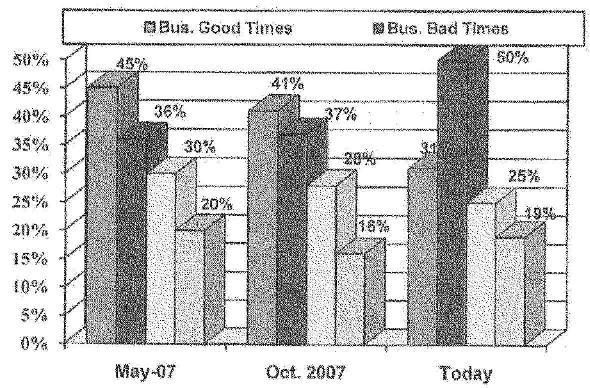
a. The MSB Survey indicated a 'dramatic shift in consumer attitudes since last October and results of the most recent University of Michigan Consumer Sentiment Survey. (MSB 2)

CONSUMER EXPECTATIONS



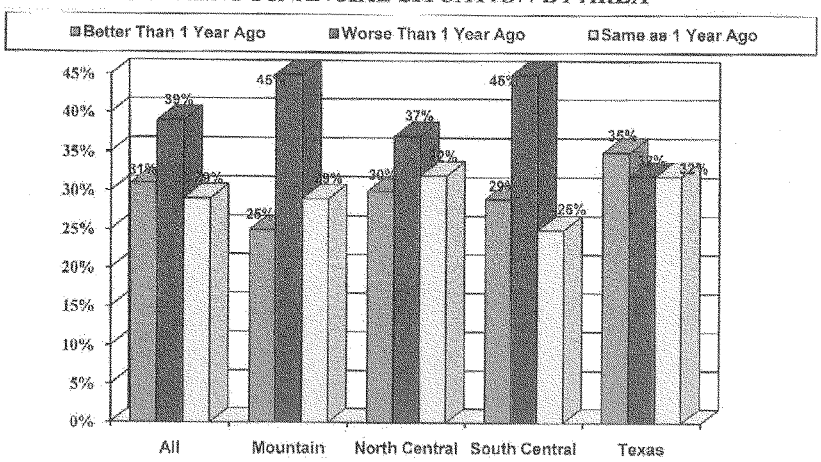
b. 50% of consumers in middle America believe the coming year will be bad for business, up from 37% in October 2007 and 20% in May 2007. (MSB 3)

Business & Personal Expectations



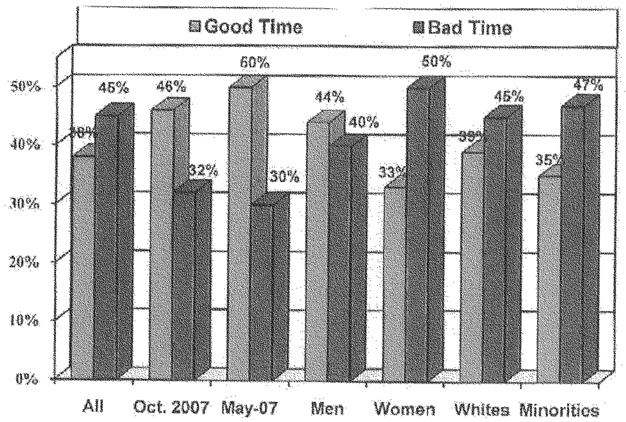
c. 39% of the respondents believe their financial situation is worse than a year ago. 47% of consumers believe the next five years will bring periods of depression vs. 37% in October. (Women are more pessimistic than men (51% vs. 43%). (MSB 3A)

CURRENT FINANCIAL SITUATION BY AREA



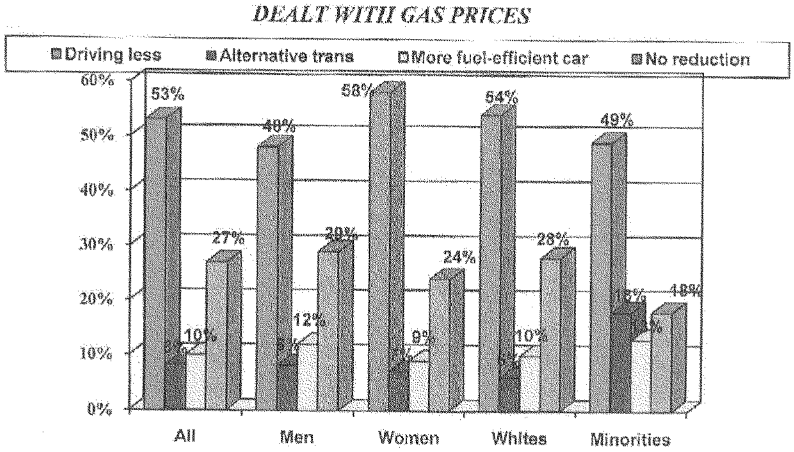
d. There was a decline in those thinking now is a good time to buy a durable household item, 38% vs. 46% last fall. (MSB 4)

GOOD TIME FOR HOUSEHOLD PURCHASES

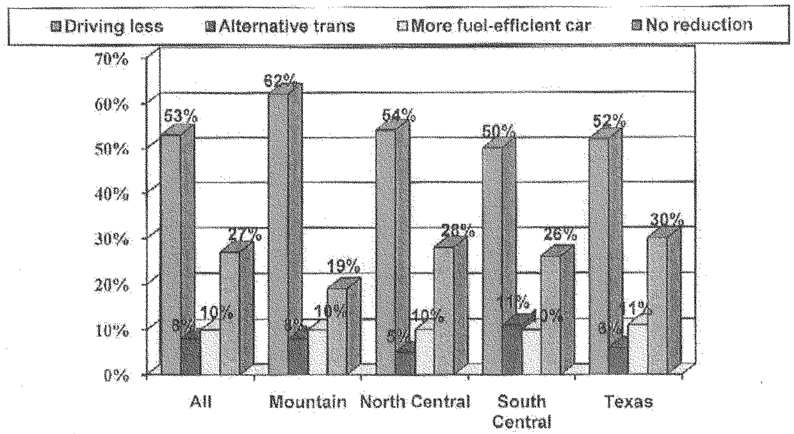


e. Consumers continue to change their habits as a result of higher gasoline prices. 53% of all consumers (vs. 58% women) say they are now driving less. (MSB 5 & 6)

DEALT WITH GAS PRICES



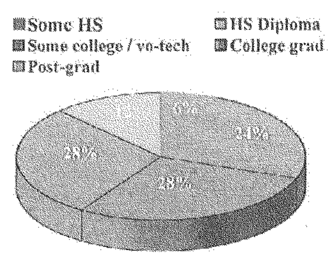
DEALT WITH GAS PRICES BY AREA



The Meinders Consumer Confidence Survey is similar to the oft-quoted University of Michigan Consumer Sentiment Survey. Data collection methodology differs from the UM survey but the formulas for calculating the index are the same, allowing comparisons to be made. Poll Demographics by state/education. (MSB 7)

POLL DEMOGRAPHICS – STATE / EDUCATION

Arkansas	4%
Colorado	7%
Iowa	5%
Kansas	4%
Louisiana	6%
Minnesota	8%
Missouri	9%
Montana	1%
North Dakota	1%
Nebraska	3%
New Mexico	3%
Oklahoma	6%
South Dakota	1%
Texas	33%
Wisconsin	9%
Wyoming	1%



SBA numbers document some of the problems already occurring. **Business bankruptcies** have risen for the last four quarters at the same time the **Small Business Optimism and Consumer Sentiment indexes** (SBA 2708) were both declining. This has resulted in small business owners significantly reducing their hiring plans.

Inflation is impacting consumer prices. At $3 a gallon, consumer discretionary income declines enough to impact the frequency of eating at quick service and casual theme restaurants, which alone are reported to have lost more than 10% of their customers. Soft good purchases at chain stores (many operating as small business franchises) and thousands of independent merchants are down along with ticket sales at movie theaters. This is consequence of higher gas prices reducing the number of consumer discretionary dollars. This not only impacts small businesses providing these products and services, it also affects suppliers to these businesses whose profits are also squeezed by the increasing price of gas. History tells us this economic trend will and in fact is leading to an increase in unemployment, which further exacerbates the problems facing small business.

Given the fact the members of this committee are from Arizona, Texas, Pennsylvania, New York, Georgia and Oklahoma...states overwhelmingly populated by small businesses as well as many working blue collar citizens, your efforts to help reduce the price of gasoline and would directly impact your communities.

Small businesses are also the starting place for many minorities, women and immigrants who already face social and economic challenges. Rising fuel prices pose an enhanced threat to small businesses owned by members of these groups, at the very time we are encouraging diversity. Rising fuel prices have resulted in poor sales, declining profits or losses at Macy's, Wal-Mart, Sears, Wilson Leathers, Applebee's, (along with the thousands of small 'mom & pop' restaurants), not to mention high end stores such as Nordstrom's.

Liz Claiborne is shuttering 54 Sigrid Olsen stores, Ann Taylor is closing 117 of its 921 stores, Talbot's has closed all its men's and children's clothing stores along with 22 women's stores. Even Target and Starbucks are seeing a slowdown. Demand is down because discretionary income is down. Each of these chain operations are serviced by countless small businesses that provide window washing and custodial services, paper products, delivery, alterations and many other services that will be impacted by what many chains are experiencing. Vacancy rates at regional shopping malls have increased dramatically. National retail vacancy rates rose for the 11th straight quarter, to the highest level since 1996 with another 34 million square feet of space under construction….which will lead to even larger vacancies problems. All of this paints a dark picture for small businesses across our nation.

Corporate defaults, bankruptcies and rising fuel prices threaten our nation's airlines along with hundreds of smaller businesses who support the airline industry. Companies like Blockbuster, Ryan's Steakhouse, Old Country Buffets's, Landry's Restaurants, home builders, mortgage lenders and trucking firms are also struggling to survive. The current housing market could exacerbate small business problems. A slow down in homes sales translates to a slow down in the sales of furniture, appliances, lawn and garden products and countless service industries.

Recently members of congress called in leaders of America's energy industry to discuss high oil prices. As a former Chairman and CEO of a public company I can tell you the responsibility of every CEO is to maximize profits. To do otherwise would cheat shareholders who own these stocks or have them invested in their 401K. Criticizing the oil industry for being successful is not the solution to high oil prices. China, India and a host of other nations have significantly increased demand and therefore the price of oil. America's leadership in the energy industry is being challenged by the Chinese and Russians and both are enjoying new economic, political and military power as a result of their oil industries.

Over the last few years OPEC has reduced oil production to keep oil prices high. What makes matters worse is the fact OPEC only has a 2-3 million barrel a day production capacity surplus (MSB 8) and a weak dollar means dollar based economies are experiencing higher oil prices than those with other currencies. (MSB 9)

In the face of these economic realities, it is in America's best interest to have as strong an energy industry as possible. Profits are plowed back into research and drilling which results in job creation and more often than not, high paying jobs.

Since the government didn't provide much help to America's energy industry when oil prices were $20 it shouldn't criticize or penalize it now because oil is $100. Price is a consequence of demand and world demand is higher than ever. America's oil industry competes in a global market place and should be encouraged to use its genius to find more oil and new alternative sources of energy.

Congress would do well to encourage these companies to invest in a new 'Manhattan Project' effort to finally make our nation energy independent. While it's not easy to put a good face on high oil prices the good news is it does provide sufficient incentive to spur increased growth for alternative energy sources as well as increased but more expensive and riskier drilling.

Many of America's farmers and ranchers are correctly defined as small businesses. They not only face higher fuel prices, they are also facing higher prices for chemical fertilizers used to grow their crops. Many of these farms and ranches also receive royalties from oil and gas wells on their property. One positive to higher oil and gas prices is higher royalties which are helping many farmers offset the increased costs of operating their businesses.

Make no mistake about it, an old stripper well that wasn't worth operating at $20 a barrel might now be generating $1000-$2000 a day, some of which is paid to those farmer-rancher royalty owners.

There is no short term or easy solution to high gasoline prices. We need more exploration and more refinery capacity both of which are made difficult by government regulations and prohibitions. We need to improve automobile fuel economy standards which have remained the same for about two decades. There is one quick fix that would benefit consumers and small business owners. Congress could reduce federal fuel taxes which would have an immediate positive impact of about 50 cents per gallon and would be quicker and easier than mailing rebate checks to 170 million households.

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Committee on Small Business
Subcommittee on Investigations and Oversight
U.S. House of Representatives

Hearing on the Impact of Rising Gas Prices on America's Small Businesses

Testimony of

John M. Urbanchuk
Director, LECG LLC

April 9, 2008

Good morning, Chairman Altmire, Ranking Member Fallin, and Members of the Subcommittee. My name is John M. Urbanchuk and I am a Director at LECG LLC, a global expert services consulting firm, where I specialize on agriculture and the economics of biofuels. I am pleased to be here this morning to discuss the impact of the rising gasoline prices and the potential for renewable fuels in addressing this problem.

Background

American consumers and small businesses are reeling under the financial pressure of rapidly rising motor fuel prices. Crude oil prices have topped the $100 per barrel level which, when combined with constrained refinery capacity, has pushed retail gasoline and on-highway diesel fuel prices to new records levels. According to the Energy Information Administration Americans used 137.7 billion gallons of gasoline and 55.1 billion gallons of No.2 diesel fuel in 2007.[1] At average pump prices this amounted to $396.9 billion of spending on gasoline and nearly $159 billion on diesel fuel. Moreover, crude oil, gasoline and diesel fuel prices show little evidence of receding. The national average retail price of gasoline (all grades) reached $3.26 per gallon in March 2008, 28 percent above prices in March 2007 while retail level diesel fuel prices

[1] Petroleum Marketing Monthly. Tables 45 and 47. 2007 Issues. Energy Information Administration

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were 52 percent above year-earlier levels in March, averaging $3.88 per gallon.[2] In fact diesel prices have been consistently higher than gasoline prices for the past eight months.

Motor fuel prices affect consumers in several ways. First high pump prices force drivers to allocate a larger share of their disposable income to gasoline. Perhaps more importantly, since rising fuel prices increase operating costs for businesses at virtually every stage of production and distribution, high fuel prices eventually affect the prices of all consumer goods and services. Rising motor fuel prices have been a major contributor to the recent increases in inflation measured by the Consumer Price Index. The CPI, all Urban Consumers for all items has been increasing at a year-over-year rate of 4.2 percent over the last four months. During this same period the CPI for motor fuels increased 33.4 percent.

The impact of fuel prices on other consumer goods is illustrated by their impact on food prices. Many critics have blamed the recent increases in consumer food prices on rising grain prices due in part to increased demand for biofuels. While grain and other agricultural prices have increased sharply over the past year, their impact on consumer food prices is overshadowed by energy and energy prices. Energy plays a significant role in the production of raw agricultural commodities, transportation and processing, and distribution of finished consumer food products. An analysis I conducted for the Renewable Fuels Association last year concluded that an increase in energy (fuel) prices has twice the impact on consumer food prices measured by the CPI as does the same percentage increase in corn prices.[3] These results have been confirmed by other analysts.[4]

[2] Weekly U.S. Retail Gasoline Prices. EIA.
http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html
Weekly U.S. Retail On-highway Prices. EIA. http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp
[3] John M. Urbanchuk. "The Relative Impact of Corn and Energy Prices in the Grocery Aisle". June 11, 2007.
[4] Informa Economics. "Marketing Costs and Surging Global Demand for Commodities are Key Drivers of Food Price Inflation". December 10, 2007.

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Biofuels and Motor Fuel Prices

Biofuels (ethanol and biodiesel) have had a significant impact on restraining the increase in motor fuel prices. Increased production and use of ethanol is helping to displace gasoline demand and reduce prices at the pump The ethanol industry produced nearly 6.5 billion gallons in 2007, has current capacity of 8.5 billion gallons with an additional 5.1 billion gallons under construction. Ethanol currently is blended in about 48 percent of the nation's gasoline supply and makes up about five percent of total motor fuel use. The U.S produced an estimated 450 million gallons of biodiesel in 2007.

Ethanol is blended with gasoline primarily to improve air quality and add octane. Biodiesel is a naturally low-sulfur non-petroleum diesel fuel. Both products extend the supply of motor fuel and help relieve pressure on prices at the pump.

Ethanol saved American consumers an estimated 10.3 cents per gallon at the retail pump in 2007 for a total savings of $6.8 billion. Reflecting current gasoline and ethanol price movements similar savings are projected for 2008. The details of this projection are shown in Table 1.

Table 1
2007 Consumer Savings from Ethanol

Gasoline US Rack ($/gal)	Gasoline US Retail ($/gal)	Ethanol FOB Plant ($/gal)	Ethanol Net ($/gal)	E-10 Wholesale ($/gal)	E-10 Retail ($/gal)	Savings (cts/gal) ($/gal)	U.S. E-10 Use (Mil Gal)	Consumer Savings (Mil $)
$2.177	$2.886	$1.938	$1.428	$2.302	$2.783	$0.103	65,880	$6.779

The savings from ethanol were estimated using actual 2007 gasoline price data at the rack and retail levels published by EIA and ethanol price data published weekly by USDA. Gasoline and ethanol prices projections were estimated using projections published by EIA in its 2008 Annual Energy Outlook as a basis.[5]

[5] EIA Annual Energy Outlook 2008 (Revised Early Edition). Report #DOE/EIA-0383(2008). March 2008. National Weekly Ag Energy Round-Up, USDA Livestock & Grain Market News. 2007 Weekly issues.

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Retail gasoline prices reflect a wholesale price plus a retail margin and state and federal taxes. The wholesale price represents the price of gasoline at the terminal or "rack" which is supplied from a refinery, port, or pipeline. This is the level at which ethanol typically is blended with gasoline. Gasoline is then supplied to retail stations by truck. A margin is added to the wholesale price at terminal and again at the retail level before state taxes of 21.9 cents and federal taxes of 18.4 cents per gallon are added to make up the final retail price for consumers. Our analysis is based on an average price for all grades of gasoline.

As can be seen in Table 1 EIA reported that the average wholesale, or "rack" price for gasoline was $2.177 per gallon in 2007. The margin, or difference between the retail and rack price, was 15.4 cents per gallon. This is made up of a distributor margin (the difference between the "rack" price and the dealer tankwagon ("DTW") price which is the price of a truckload of gasoline delivered into storage at a retail station) and a retail margin (the difference between the dealer tankwagon and retail price). When the combined state and federal gasoline excise taxes were added, the average retail price of gasoline (all grades) was $2.886 per gallon.

Ethanol is blended with gasoline at the terminal for delivery to retail stations. As reported by USDA, the average price of ethanol, FOB plant in Iowa was $1.938 per gallon. The blender who purchases ethanol for use with gasoline qualifies for the $0.51 per gallon Volumetric Ethanol Excise Tax Credit (VEETC) which reduced his actual cost of ethanol to $1.428 per gallon. The wholesale price of E-10 reflects a weighted average of wholesale gasoline (90 percent) and ethanol (10 percent) plus transportation to get ethanol from the biorefinery to the blender (estimated at 12.5 cents per gallon) and the distributor margin. The retail margin and taxes are added to the wholesale price to yield the retail pump price. Using actual data for 2007, the price of an E-10 blend in 2007 was $2.783 per gallon or 10.3 cents below the published retail price for all blends. EIA Prime Supplier gasoline sales data for 2007 indicates that 137.7 billion gallons of gasoline were sold in 2007. The 6.5 billion gallons of ethanol produced in 2007 would provide 65,880 million gallons of E-10 gasoline. This amounts to a savings for consumers of $6.8 billion.

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Future savings for consumers will depend on what happens to both gasoline and ethanol prices. The Renewable Fuel Provisions of Energy Independence and Security Act of 2008 (EISA 2008) requires that 36 billion gallons of renewable fuels, largely ethanol, be used in the nation's motor fuel supply by 2022. This amounts to about 30 percent of the nation's motor fuel supply. Ethanol from corn starch is capped at 15 billion gallons by 2017 with the remaining 16 billion gallons to be produced from "advanced biofuels feedstocks", largely cellulose. As ethanol production expands to meet this aggressive target ethanol prices are expected to reflect the larger supplies and remain favorable relative to gasoline. Consequently, we expect that consumers will continue to benefit from increased production and use of biofuels.

Conclusion

Rapidly rising crude oil and motor fuel prices are putting consumers and businesses under significant financial stress. Biofuels are an important contributor to reducing America's dependence on imported petroleum. Ethanol extends the nation's motor fuel supply, provides important environmental benefits, and improves fuel performance. The ethanol industry produced 6.5 billion gallons of ethanol in 2007 which was blended into 48 percent of the nation's motor fuel supply. When all factors are considered, the price of an E-10 blend was 10.3 cents per gallon below gasoline providing consumer savings of $6.8 billion.

Full implementation of the Renewable Fuel Provisions of EISA 2008 will ensure that consumers and small businesses continue to benefit in the future.

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Michael J. Graff Presentation

In 1986 I started Graff Trucking with one vehicle operating as a part-time venture. Since then I have expanded this business to a full-time operation with twelve employees, nine vehicles and 44 trailers. Graff Trucking works with both national and local businesses and operates primarily in the Northeastern states of Pennsylvania, New York, Ohio, New Jersey and Maryland.

Fuel prices have been on the rise in this country for the past several years. Although there has been much publicity recently around rising prices this issue has been ongoing to the trucking industry for several years. We have been suffering from increases that have caused us to lose efficiencies and erode our profits.

In the past year diesel prices have continued to increase while today averaging around $4.00/gallon. At first the increases were simply borne by the trucking company until they became so high that operating without a fuel surcharges or increasing prices was no longer an option.

What continues be amazing is the fact that diesel fuel is less refined and therefore cost less to produce but is averaging approximately .70 / gallon more than gasoline.

While I struggle to remain in business dealing with escalating costs our fuel companies continue to report record breaking profits. What remains extremely frustrating to all businesses and consumers who are facing higher costs is those same fuel companies continue to receiving tax breaks!! Graff Trucking employees 12 employees and despite a solid relationship and established 20 plus year history in business I am at a point that I am questioning my ability to continue to operate. The news reports almost daily on companies who are ceasing to operate or filing for bankruptcy, including three airlines just last week due to the increase in operating expenses.

One common thread for these companies and the trucking industry are the fact that fuel is there highest expense and has driven them out of business. I request your help so Graff Trucking is not the next company faced to follow this same path.

What is the driver for these outrageous fuel prices? Is Energy Trading and Wall Street playing a huge part in the root cause of the high fuel prices? Wall Street is not driven to provide affordable energy supplies. Due to the limited overseeing of energy trading and the dominant position in oil futures by Investment banks and hedge funds this may be a contributing factor of the volatility of prices leading to high gasoline, diesel and heating oil prices.

The government standard rate for transportation i.e. rate per mile to be charged for similar type modes of transportation and fuel surcharge rates equal. This would allow for a small business owner to be competitive and not allow large companies to dictate the rates.

The transportation industry is the first to be impacted by these rates and then filter further into the economy and touch all citizens. Therefore the potential for increase costs to all of our business sectors for our country is at risk. Government must take immediate steps to prevent the economy from slipping even further into a negative state than we currently are facing.

Pennsylvania has the highest tax on diesel fuel in the nation. The government is considering implementing a toll on Interstate 80 as well as discussion on privatizing the Pennsylvania Turnpike. These actions would have a continued detrimental affect on the transportation industry. In Pittsburgh a 10% drink tax was initiated to help address financial struggles of the port authority. These are not the steps needed to resolve the issues we are facing.

This committee as well as the Federal and State Governments must work together to implement both short and long term solutions to allow small business owners such as myself the ability to continue to operate allowing us to provide employment and services to our customers.

Gary J. Gilberti

Written Testimony for the Record

Hearing on

"The Impact of Rising Gas Prices on America's Small Businesses."

Small Business Committee, Subcommittee on Investigations and Oversight,

U.S. House of Representatives

April 9, 2008

On behalf of Chesapeake Rehab Equipment and the National Coalition of Assistive and Rehab Technology (NCART), I appreciate the opportunity to testify about "the impact of rising gas prices on America's small business". Chesapeake Rehab Equipment is a small regional company which provides rehab technology products and service to disabled Americans. NCART is a coalition of manufacturers and suppliers that representing the interests of companies like Chesapeake Rehab.

Background

The rehab technology industry is a small subdivision of the durable medical equipment (DME) industry. Businesses in this sector provide medical equipment and services for individuals with a variety of conditions and disabilities. The service and delivery model of this business requires companies to make deliveries and service calls to the homes of customers. Many of the individuals we serve are unable to come to our locations and their equipment is not always conveniently transported.

Companies in this industry are primarily small privately owned businesses that serve a local or regional community. Most have annual revenues under $3M and many are rural providers who may serve an area with a radius of up to 200 miles. These companies employ fleets of their own vehicles which each can make 5-10 delivery/service stops and traveling 150-200 miles per day. The vehicles will cover rural and urban areas and experience highway and city driving conditions.

These companies also operate in a price regulated market. Ninety-five to ninety-eight percent of the payment for the products provided comes from Medicare, State Medicaid or third party insurance payers. These organizations establish a rate of reimbursement for rehab technology companies and rarely allow adjustment of those rates to reflect market conditions and operating costs of the provider. The level of service provided is also dictated by accreditation standards and "supplier standards" required by Medicare.

Companies are not able to unilaterally increase prices in order to adapt to increasing operating expenses nor are they able to cut services in order to reduce those expenses. Medicare/Medicaid regulations prohibit companies from directly billing their customers for any costs that should be included in the price of the product or the associated labor. Fuel costs fall within this area.

The Impact of Rising Gas Prices on America's Rehab Technology Providers

Fuel prices have impacted rehab technology companies like Chesapeake Rehab Equipment in three different ways. The first is in the direct fuel costs paid by companies as a normal course of business and as a routine operating expense. Secondly, are those costs which are passed on by manufacturers, distributors and freight companies for incoming products and raw goods. The final are is in the affect that fuel prices have on our employees and their cost of commuting to work.

Fuel prices are the fastest growing operating expense item experienced by Chesapeake Rehab and other rehab technology companies. The only more costly operating expenses are labor and office/warehouse rent but neither has increased at a rate even close to our fuel expense. In 2003 fuel represented 1% of CRE's overall operational expenses. Year to date for 2008 it has already reached 2%. Chart 1, below, shows an increase of 126% in the price per gallon that our company has paid between 2003 and today.

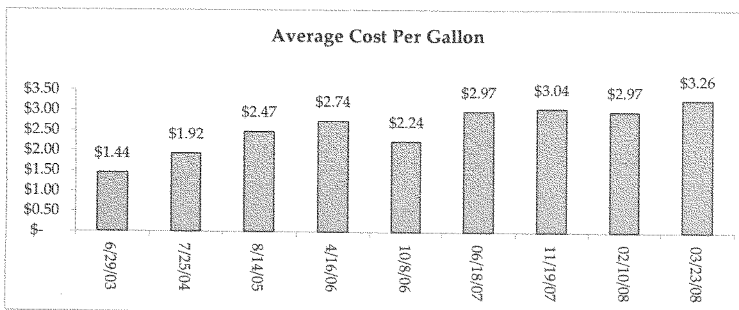

Chart 1

Chart 2 shows that Chesapeake Rehab's use of fuel has remained relatively flat over the same period as listed above. However, Chart 3 will show that the annualized dollar cost has more than doubled in that period.

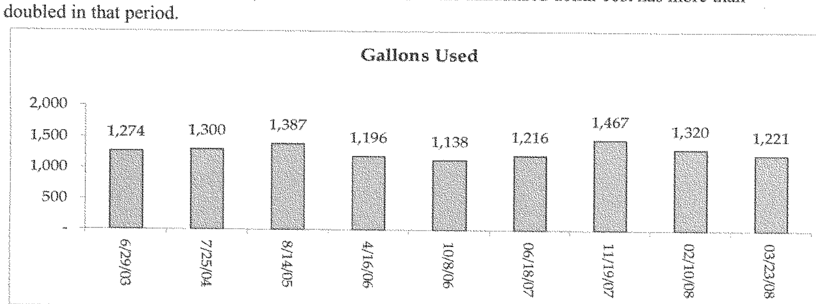

Chart 2

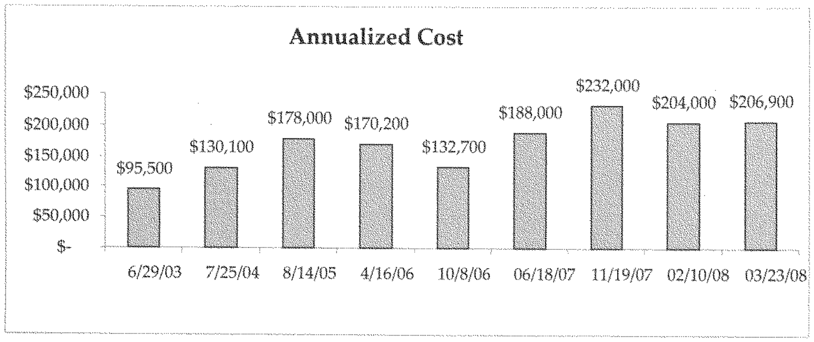

Chart 3

The trends shown in these charts are consistent with numbers received by NCART in a poll of several members. Although the fuel prices may vary by a couple cents per gallon the overall trend is consistent across all sizes of companies and all geographic areas.

In addition to the area of direct operating costs rehab technology companies are absorbing an increase in product costs as a result of fuel prices. Rehab technology companies purchase their products from several different manufacturers and distributors for delivery to customers. In the past 18 months every manufacturer that supplies the industry has either increased the actual price of their product or imposing fuel surcharges on the freight to bring the product in. This has added anywhere from 3-5% of an increase to the price of the product. Chesapeake Rehab's cost of goods has increased 3% in the last year mostly as a result of these fuel surcharges and incoming freight costs. Once again this is a trend that is consistent across our industry.

Rehab technology companies also feel the impact of increased fuel prices through their employees. This is a more indirect effect that we are seeing more now than in the past. There are more incidents of employees requesting pay increases or leaving to accept jobs with other businesses closer to their homes. They simply cannot continue to personally absorb the increased cost of commuting to work. Many do not have access to public transportation and some require their vehicles to do their jobs.

The work force in the rehab technology industry is very specialized. Finding employees who have the proper skill set or knowledge base to work in our field is very difficult. Keeping employees at a higher pay rate or replacing lost employees are real costs that are not driven by normal market pressures.

Increasing fuel costs are detrimental to any business large or small. Unfortunately in a highly regulated industry they are even more damaging. Companies that are dependent on Medicare, Medicaid and private insurance for the payment for products and services are limited by the rates that those organizations will pay. There is no mechanism to recognize or reimburse companies for the amount of travel required to service our customers in their home as we are required. It is expected that these businesses will absorb these costs as part of the price of the product. Unlike other home service industries we are unable to pass on those costs.

In general, Medicare and Medicaid funding for rehab technology products has been cut about 15% over the last 3 years. There have been only 3 CPI increases to the "Medicare fee schedules" since 1998 and none since 2003. The industry is facing additional cuts through the implementation of the Medicare competitive bidding program and through State Medicaid budget cuts.

In 2006, NCART contracted with the Moran Company to perform a financial study of companies in the rehab technology industry[1]. This showed the impact of reimbursement changes on rehab technology companies and that the average net profit for a rehab technology company was only 1.6%. It also showed that many companies in the industry are below that level and are cash strapped as a result of the pitfalls of collecting payments from Medicare, Medicaid and third party insurers. To continue to absorb such drastic increases in fuel prices will further damage companies that may already be financially unstable.

At the rate that fuel prices are increasing they can provide the tipping point that will cause some of those borderline businesses to fail. As businesses in this sector fail there will be less attraction of new capital to the industry because a reasonable return cannot be attained. Without additional investment in the industry there will be an issue of access to technology for those disable individuals that are served by these businesses.

Once again, on behalf of Chesapeake Rehab Equipment and NCART, I appreciate this opportunity express our concerns regarding fuel costs and their impact on our businesses. Our hope is that this committee may be able to initiate some effort that will bring some relief to small businesses.

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[1] The Impact of Proposed Reimbursement Changes on Providers of Rehab and Assistive Technology: Evidence from a Provider Survey November 2006. The Moran Company