

United States Senate

WASHINGTON, DC 20510

July 20, 2005

The Honorable Pete V. Domenici
Chairman
Committee on Energy and Natural Resources
United States Senate
Washington, DC 20510

The Honorable Jeff Bingaman
Ranking Member
Committee on Energy and Natural Resources
United States Senate
Washington, DC 20510

Dear Chairman Domenici and Ranking Member Bingaman:

Thank you for including in the Senate Energy Bill authorizing language for Small Business Administration (SBA) disaster loans for businesses harmed by substantial increases in energy price. Many small businesses are being adversely affected by the substantial increases in the prices of gasoline, heating oil, propane, and natural gas. The price volatility and substantial increases in the cost of these fuels is placing a tremendous burden on the financial resources of small businesses, which typically have small cash flows and narrow operating margins. We strongly urge you to retain this provision in conference.

According to data from the Energy Information Administration's (EIA) Short-Term Energy Outlook, the need for emergency small business loans will only increase because of further price increases and market instability: The crude oil price averaged over \$56 per barrel in June, and EIA forecasts the average to be \$59 per barrel for the third quarter of 2005, approximately \$15 higher than the level a year ago. The current price of \$60 a barrel is the highest the nation has experience in over 20 years. This rise in crude oil prices is translating into higher prices at the gas pump and into increases in heating oil at a time when consumers traditionally can find lower prices for summer fills.

The federal government forecasts an average gas price of \$2.25 a gallon through September. This is 8 cents a gallon more than the EIA forecasted last month, and about 35 cents more than the average a year ago. According to a survey by IBM Business Consulting Services and the Grocery Manufacturers Association, transportation costs rose 23 percent in the food, beverage and consumer products industry in the past two years. Transportation costs increased to an average of \$1.69 per mile and now account for 62 percent of all logistics costs, or 6 percent of gross revenue.

Heating oil prices are also rising. Last week, the wholesale price of heating oil for February delivery was \$1.915 a gallon, an all-time high. Retail prices generally run about 45 cents a gallon higher than the wholesale price. Heating oil and propane distributors purchase oil through wholesalers. Typically, the distributor has 10 days to pay for the oil. The money is pulled directly from a line of credit either at a bank or with the wholesaler. Given the high cost of heating oil, distributors' purchasing power is greatly diminished. In addition, the distributors often do not receive payments from customers until 30 days or more after delivery; therefore, their financial resources for purchasing oil for customers and running their business are limited.

According to an April 2005 poll by International Profit Associates Small Business Research Board (IPA SBRB), nearly two-thirds of the small businesses responding said they are feeling the impact of rising fuel costs. Some of these businesses are passing on at least part of the increase to customers; however, other small businesses stated that tight competition prevents them from passing on the increases. As Gregg Steinberg, President of IPA, stated, "Small business owners and managers are caught in an environment where costs are escalating and margins are being squeezed."


Small businesses need to borrow money on a short-term basis to maintain economic viability. Commercial lenders typically will not make loans to these small businesses because they usually do not have the increased cash flows to demonstrate the ability to repay the loan. Without sufficient credit, small businesses will struggle to meet rising gas prices and to purchase the heating fuels they need to supply residential customers, businesses and public facilities, such as schools this winter. These loans would provide affected small businesses with the working capital needed until normal operations resume or until they can restructure to address the market changes.

SBA's disaster loans are an appropriate source of funding to address this problem. The beginning of the hurricane season is affecting oil and natural gas protection. And as EIA reports, geopolitical instability is keeping the level of uncertainty in the world oil market high. The conditions restricting these small businesses' access to capital are beyond their control and SBA loans can fill this gap when the private sector does not meet the credit needs of small businesses.


A similar provision passed the Committee on Small Business and Entrepreneurship and full Senate with broad bipartisan support during the 107th Congress when these small businesses faced substantial increase in energy prices.

Thank you for your consideration.

Sincerely,



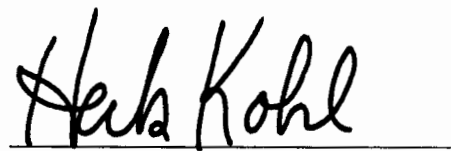
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Olympia J. Snowe




Jack Reed




Herb Kohl


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Letter to Energy Conferees
Small Business Administration Energy Loans



Joseph I. Lieberman



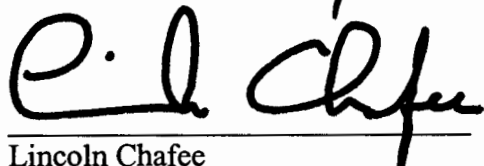
Christopher J. Dodd



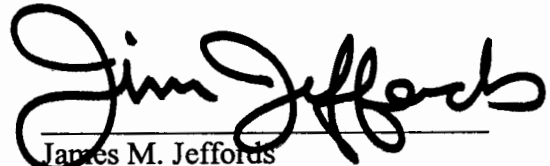
Edward M. Kennedy



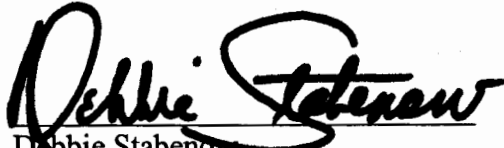
Carl Levin



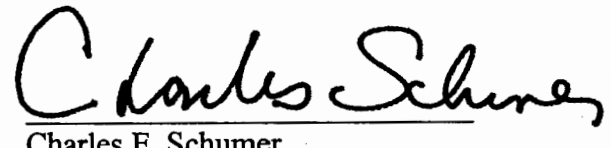
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