

SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA

Statement of Position on Federal, State, or Locally Imposed Mandates for the Use of Particular Motor Fuels

SIGMA's Position on Fuel Mandates

The Society of Independent Gasoline Marketers of America (SIGMA) does not oppose a governmental requirement as to fuel content or composition *provided that* the enforcement of that requirement does not create disruptions or liabilities in a market that penalize consumers or fuel marketers. So long as there are adequate supplies of a product, adequate logistics to deliver it to market, and the sale and use of the product does not create new liabilities, SIGMA will not object to a government's achievement of legitimate policy goals through new fuel requirements.

Background

The Society of Independent Gasoline Marketers of America (SIGMA) is a national trade association comprised of approximately 250 independent marketers and chain retailers of motor fuels. SIGMA's members operate in all 50 of the States and collectively sell over 25 percent of the motor fuels consumed in the United States each year.

SIGMA's marketer members do not produce or refine crude oil nor do they, with very rare exceptions, produce any other type of motor fuel. As a consequence, SIGMA's marketer members must obtain all of their supplies of motor fuels from third parties. The marketing segment around which SIGMA developed has long been viewed as the most efficient, innovative and price-competitive segment of the motor fuels markets. Independent marketers' ability to compete aggressively on price is dependent upon their ability to obtain supplies of motor fuels at a price which permits their marketing efficiencies to be relevant at the retail level. The factors which most seriously contribute to marketers' fulfilling this economic requirement are an adequacy of supply and a transportation infra-structure adequate to move supplies of motor fuels to market from diverse sources of production.

SIGMA and Renewable Fuels

Of all of the national associations representing petroleum marketers, SIGMA has been the most supportive of renewable fuels (primarily ethanol) over the years. Starting in the late 1970's and early 1980's, SIGMA consistently expressed support for ethanol's production and importation as a source of additional supply which its members could use to enhance their competitive viability. SIGMA members were among the first market participants to champion blends of renewable fuels and continued to use these blendstocks so long as they were made available on a cost-basis which enhanced marketers' competitive position.

SIGMA's members are essentially agnostic about which motor fuels they sell. The companies which comprise SIGMA are the owners and operators of liquid motor fuel distribution systems and are happy to supply the fuels which consumers want and need. However to perform that function, SIGMA's members must be able to: 1) have access to

adequate supplies of that product, 2) be able to obtain that product at prices which permit SIGMA members' marketing efficiencies to be relevant in competition, 3) be secure that the sale of that product will not expose them to unnecessary legal liability, and 4) be assured of sufficient demand for that product to justify members' capital investments and other costs. The fulfillment of these four pre-conditions is essential for independent marketers' economic viability.

SIGMA and Fuel Mandates

Governments' establishing requirements for the content of motor fuels is not new. Federal and state legislation and regulation of the content and performance characteristics of fuels has been the rule, not the exception. (*e.g.*, elimination of lead from gasoline, reduction of diesel fuel's sulfur content, and minimum oxygenate content in reformulated gasoline). Normally this exercise of political authority has had minimum negative consequences. However, there have been real consequences of which policy makers should be aware and take into consideration.

The elimination of lead (a major octane source) from gasoline resulted in the blending into gasoline of compounds such as methyl tertiary butyl ether (MTBE). Congress' mandating minimum levels of oxygenate into reformulated gasolines accelerated and broadened the use of these compounds. Some courts' imposing liability on manufacturers of MTBE or gasoline containing it, coupled with Congress' refusal to shield these manufacturers from this liability, resulted in MTBE's being eliminated suddenly from gasoline in the spring of 2006 with dramatic price consequences for marketers and consumers. Even though there arguably was enough ethanol available in the country to replace the MTBE being eliminated from gasoline, this supply of ethanol could not shield marketers and consumers from a huge price spike, because the logistical infra-structure required to distribute this ethanol was not in place. As a consequence, consumers experienced record prices, politicians received almost unprecedented numbers of complaints, and marketers were accused of "price gouging" when the market turmoil was completely predictable to those who understood the supply and logistical limitations of the fuels supply system.

As policymakers (eager to reduce: (a) U.S. dependence upon mid-eastern oil, (b) air and water pollution, and/or (c) consumers' costs of motor fuels), explore the possibility of mandating that motor fuels be comprised in larger part of renewable fuels such as, ethanol or biodiesel, it is essential that they take into account the factors which can turn a well-intentioned policy initiative into a consumer nightmare. SIGMA urges those considering the imposition of such mandates to ask the following few simple, but absolutely indispensable questions:

- 1) Is there enough of the mandated product to fulfill the demand created by the mandate in the market to which the mandate is applicable?
- 2) Is there an adequate logistical infra-structure to support without a supply disruption the movement of the mandated product into the market and facilitate its distribution to retail outlets?

- 3) Will there be consumer demand for, as opposed to resistance to, this product? Does its use have a negative impact on a consumer's warranty for his car?
- 4) Can the mandated product (the chemical characteristics of which may be very different from traditional motor fuels') be safely distributed through existing facilities, such as storage tanks, underground piping, and dispensers, or will new infra-structure be required?

As long as the above questions can be answered in a manner which protects all of the participants in the supply chain from disruption and liability, SIGMA will have no objections to a government's exercising its political authority in this area.