Petroleum Marketers' Perspective
Presentation to
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Who is the
Society of Independent Gasoline Marketers of America?

- 250 *Independent* Petroleum Marketers;
- Marketers, Not Refiners;
- SIGMA Members Do Not Make Gasoline or Diesel Fuel
- SIGMA Members Sell Gasoline and Diesel Fuel –
  - At Wholesale
  - At Cardlocks
  - At Retail
- 37,000 Retail Outlets Supplied;
- 57 Billion Gallons of Gasoline and Diesel Sold in 2003;
- 32% of Total Domestic Sales of Motor Fuels;
- SIGMA Members Are The Most Price Competitive, and Supply Sensitive, Portion of Motor Fuel Distribution Industry

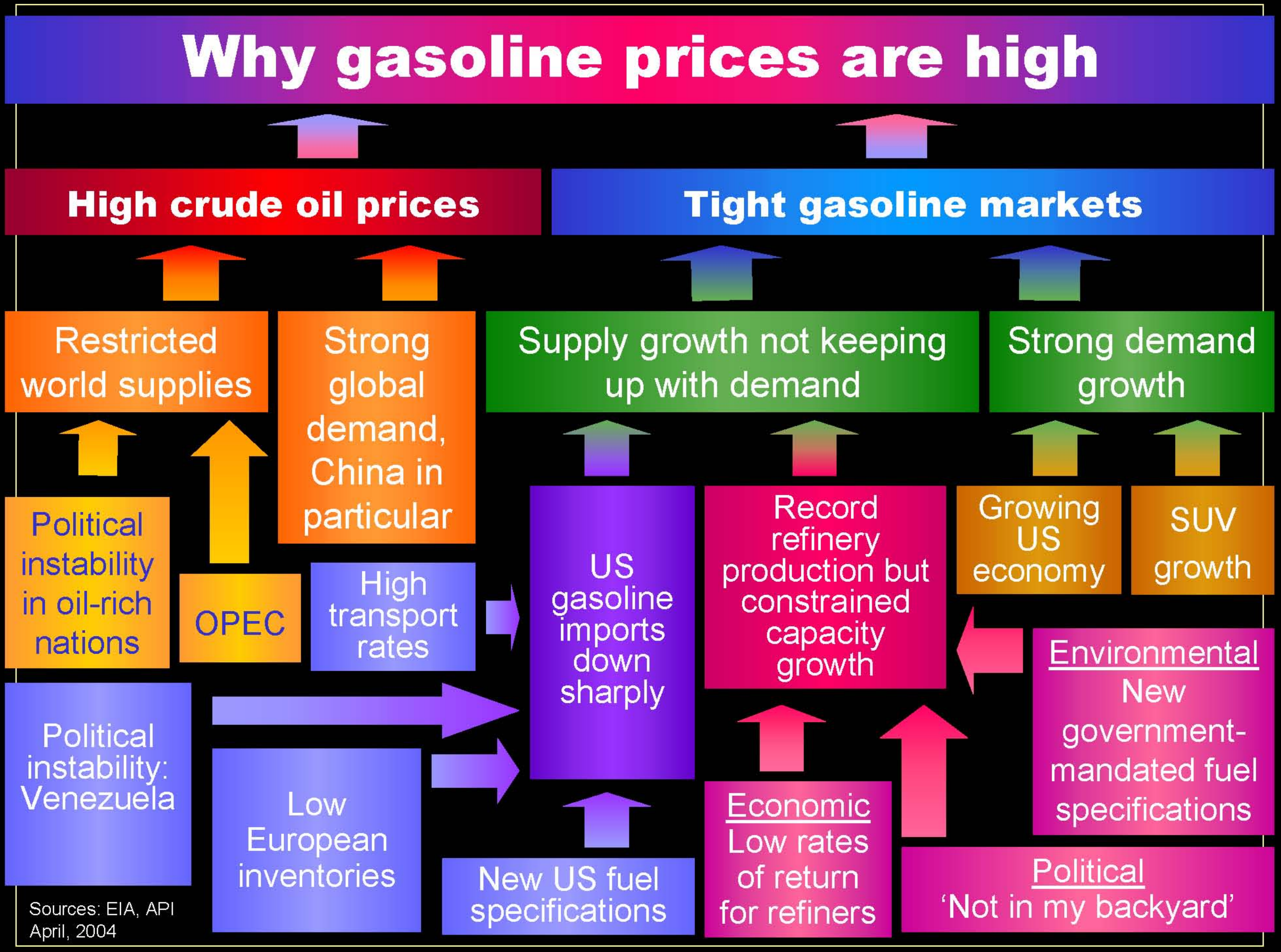
Outlook for Summer 2004

- NASEO Has Heard From The Experts On Energy Supplies:
  - DOE
  - EIA
  - NPRA
- Here's One More Expert:

  "[T]he current gasoline production and distribution system is able to provide adequate quantities of boutique fuels, as long as there are no disruptions in the supply chain"[1]
- SIGMA's Translation:

  "As long as everything works OK, everything will be OK."
- What Are The Chances of Everything Being OK in the Summer of 2004?

[1] 2001 EPA Boutique Fuels White Paper.


Why gasoline prices are high
High crude oil prices
Tight gasoline markets
Restricted world supplies
Strong global demand, China in particular
Supply growth not keeping up with demand
Strong demand growth
Political instability in oil-rich nations
OPEC
High transport rates
US gasoline imports down sharply
Record refinery production but constrained capacity growth
Growing US economy
SUV growth
Environmental
New government-mandated fuel specifications
Political instability: Venezuela
Low European inventories
New US fuel specifications
Economic
Low rates of return for refiners
Political
'Not in my backyard'
Sources: EIA, API
April, 2004

The Forecast for the Summer of 2004?

- As You Have Already Heard, the Forecast is Not Positive;
- SIGMA's Prediction:
  - Regional Product Shortages and Significant Price Volatility Will Occur Through the Summer of 2004;
  - Isolated Incidents (World Events. Unplanned Refinery Downtime; Natural Disasters, and Pipeline Problems) Will Disrupt Supply and Increase Price Volatility;
  - Independent Marketers Will Continue to Be Squeezed on Supply and Price Volatility;
  - Consumers Will Become Angry and Seek Someone to Blame;
  - Politicians, Federal and State, Will Seize on this Anger and Call for Investigations into Conspiracies, Cabals, and Price Gouging; and,
  - All the Investigations Will Result in the Same Conclusions Reached By Past Investigations: *There Are Rational Economic Reasons for Price Volatility in Times of Supply Shortages*.

SIGMA's Public Policy Recommendations

- There Is Little If Anything That Federal or State Governments Can Do To Positively Impact Supply and Prices in 2004;
- Pass An Energy Policy Bill That Actually Contains Energy Policy, Rather than Environmental Policy or Agricultural Policy:
  - Repeal the Oxygenate Mandate;
  - Do Not Mandate Use of Ethanol or Biodiesel;
  - If MTBE Is To Be Banned, Take Supply Into Account;
  - Restrict Proliferation of Boutique Fuels; and,
  - Permit Blending of Compliant RFGs.
- Do Not Release Products From SPR:
  - Any Price Movements Will Be Temporary – A Matter of Days;
  - Domestic Refining Capacity Is Inadequate to Turn SPR Crude into Finished Product;
- Consider Public Policies to Encourage Expansion of Domestic Refining Capacity and Retention of Existing Capacity;
- Do Not Balkanize The Gasoline and Diesel Fuel Markets Further Through Implementation of New Ozone/PM Standards; and,
- Energy Policymakers Must Be Involved in Next Ozone/PM NAAQS Review, Scheduled for 2005.

Conclusions

- Forecast for 2004 Summer Fuel Supply and Price Volatility Is Grim;
- Short-Term Solutions Are Scarce; and,
- Long-Term Solutions Must Be Debated and Implemented.

- Thank you!
- Questions?