



**American  
Petroleum  
Institute  
- Excise Tax Committee's  
Annual Industry Update**

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FTA National Motor Fuel Tax  
Hartford, CT**

**September 21-24, 2008**

# There Will Be Blood

Yes, Hollywood thought the  
early days of Oil was sexy for  
a big budget,  
Academy Award ©  
winning movie.

# There Will Be Blood – Synopsis

- All about the money.
- All about the power.
- All good deeds are punished.
- Nobody innocent without getting hurt.
- Ends badly for everyone.
- While a *tour de force* for acting, not a “happy movie”.

*Sounds familiar....*

# Industry Update – What’s “Hot”?

1. High Crude and Energy Costs / Volatile Supplies
2. Reduced Demand
3. Reduced Margins
4. Ethanol Woes
5. Biodiesel Mandates
6. Election Year Congress
7. Slacking State Revenues
8. Forecast / Crystal Ball

# High Crude and Energy Costs and Volatile Supplies

- Motor fuels are made from processing of crude oil.
- Crude oil prices have been at historic highs.
- Fuel prices have been at historic highs.
- Higher prices have lead to a decline in demand.
- Refiner margins have slipped since 2007 and for many have gone into the **RED**.

# High Crude and Energy Costs and Volatile Supplies



- Integrated oil companies upstream profits have offset downstream refining losses. This masks the downstream challenges.
- Refining only companies have had a more difficult time with high crude and energy costs.

# High Crude and Energy Costs and Volatile Supplies

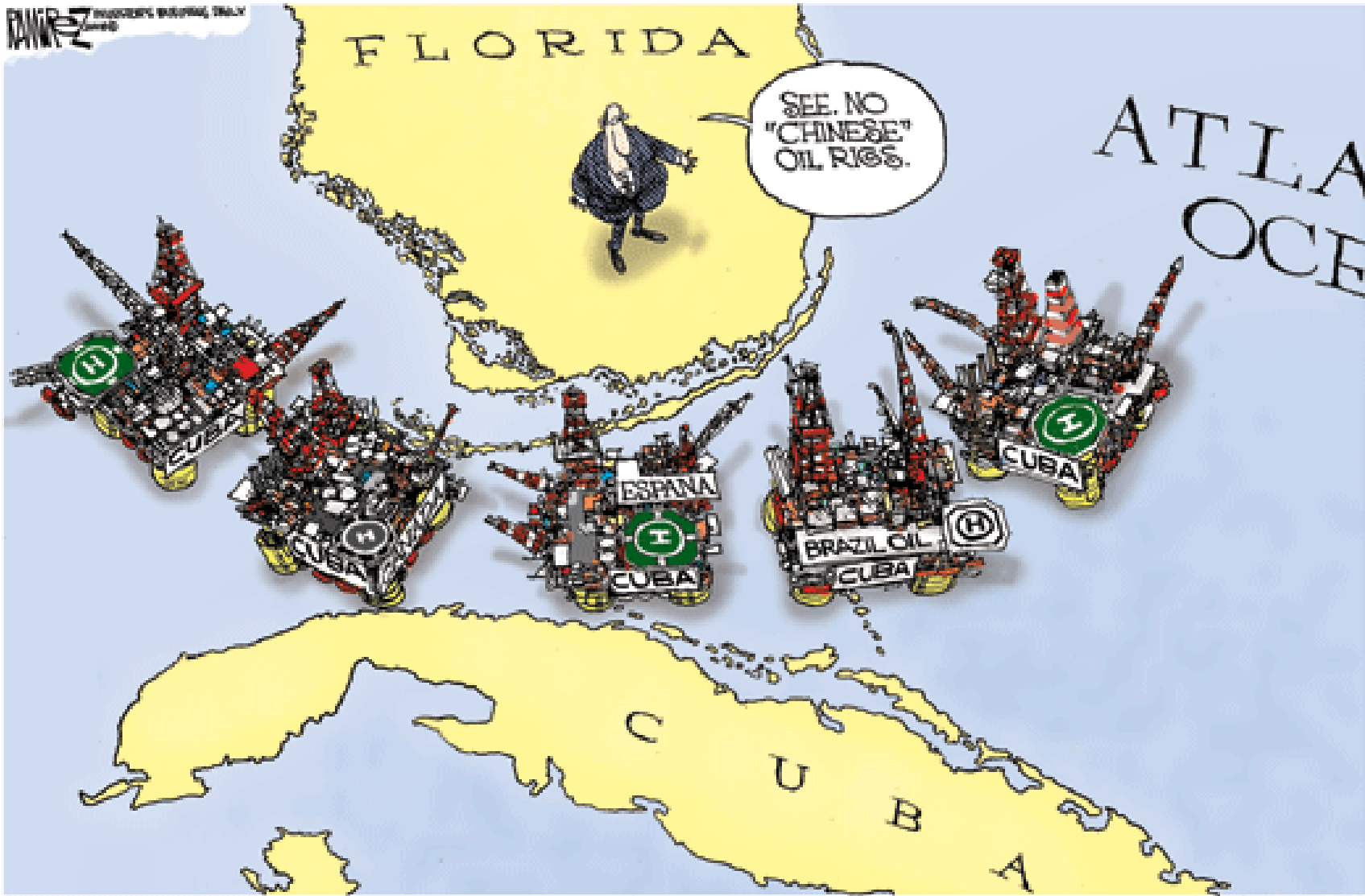


- Global tensions have given the markets jitters on supply.
- New and varied concerns.
- Refreshing our memories of geography and recent history as well as longstanding regional feuds and aspirations.

# High Crude and Energy Costs and Volatile Supplies



# Yes, there is drilling off the Atlantic Coast, by CUBA!



## Reduced Demand

- Yes, Americans are using less motor fuel for the first time in 17 years.
- Rate of decline varies state by state, between 1% and 7% year over year.
- Reduced state revenues from MVF taxes...
- *Temptation of lower prices and cheap SUVs...*

## Reduced Refining Margins

*Further economic squeeze on refining margins:*

- Cost reductions being sought across the board at refining divisions of majors and second tier refiners.
- Economic stresses creates **potential** for next period of refinery sales and closures.

## Ethanol Woes All Around

- Higher petroleum prices have resulted in ethanol being lower priced than gasoline.
- Market demand is driving more ethanol blending across the U.S. to reduce product prices.
- RINS, required federal environmental credits for refiners, is also driving more ethanol blending.
- Economic incentive to blend below the rack and blend at higher rates.

## Ethanol Woes All Around

### Iowa files suit against gas station owner for blending E85 into E10

August 19, 2008

In Iowa, [the state attorney-general has filed a consumer-protection lawsuit against the owner of gas stations in Sumner and Fairbank for illegally adding low-cost E85 ethanol to E10.](#) The attorney-general alleged that the owner of the Pronto Market station ordered 2500 gallons of E85 without separate storage for the higher ethanol blend or an E85 pump. The suit calls for civil penalties of \$40,000 and for a cease-and-desist order.



## Ethanol Woes All Around

### **Neb. AG charges 2 in alleged scam to sell ethanol-blended gas at higher unleaded price**

August 19, 2008 - 6:20 p.m.

LINCOLN, Neb. (AP) - Nebraska Attorney General Jon Bruning has filed charges against a gas station owner and distributor he says were involved in a scam to sell ethanol-blend gasoline at higher unleaded prices.

Tom Wiese owns stations in Scribner and Decatur. He faces three counts of theft by deception, one count of criminal simulation, and one count of deceptive advertising.

Tim Kaup is general manager of the Sapp Bros. distribution center in West Point. He is charged with aiding and abetting Wiese on seven counts of theft by deception, one count of criminal simulation, and one count of deceptive advertising. All the charges are misdemeanors.

## Ethanol Woes All Around

### Boat owner sues Chevron, ExxonMobil, Shell over boat damage from ethanol

April 15, 2008

In California, [a local boat owner is seeking to establish a class-action suit against ethanol blenders](#) for not providing appropriate notice to boat owners with older fiberglass fuel tanks that can be damaged by ethanol, suing Chevron, Exxon Mobil, Shell and other oil companies over \$35,000 in damages to his boat from ethanol blended fuels.



## *2 Pails and a Fish Tank Heater !*

**NO! You do NOT need to use Corn !**

[DRIVE ON ALCOHOL FUEL MADE AT HOME](#)

Make E100, E85, E50, E40, E33, E20

YES It works in YOUR CAR !

See HOW EASY it is to make Ethanol AT HOME.

2 Pails and a Fish Tank Heater !

YES Its Legal !

[THIS IS A MONSTER BOOK. OVER 600 Pages](#)

[The Best Book EVER written on Ethanol Fuel](#)

[Hey... do your remember that famous guy back in the 1970's, 80's that did all of that GREAT stuff for Mother Earth News on ALCOHOL FUEL ?](#)

# S.C. passes ethanol law challenged by oil companies



**COLUMBIA, S.C. — South Carolina fuel distributors must have access to pure gasoline needed to make their own ethanol blends under a law that supporters say is first in the nation and will save customers at the pump.**

**Industry experts say other states could enact similar laws. More than a dozen states, largely in the South, will likely consider such legislation next year, said Daniel Gilligan, spokesman for Virginia-based Petroleum Marketers Association of America.**

## Ethanol Woes – Now What

*Do laws, like S.C.'s, further enable below the rack ethanol blending tax evasion?*

*What's the best approach to curb ethanol blending tax evasion?*

1. Tax ethanol as gasoline upon first receipt in state unless consigned to terminals?
2. Register below the rack blenders?
3. Hope it blows over?

**NO CONSISTENT STATE APPROACH**

**UNIFORMITY NEEDED!!!!**

## Biodiesel Mandates & Incentives

Many of the same state tax problems as with ethanol for the same reasons:

1. Who produces?
2. Who blends?
3. Who pays the tax?
4. Who gets the credit?
5. Who is cheating?

## Election Year Congress

Federal tax incentives for blending gasohol and biodiesel blends run out at the end of the year.

1. Will they be extended?
2. When?
3. How long?
4. What will the "score" be?

## Election Year Congress

- Blame Game for high prices continues?
- Highway Trust Fund fix - is \$8Billion enough and for how long?
- "*Drill Baby Drill*" Talk or Action?
- *Where will the drilling rigs come from?*



# Baker Hughes Rig Counts 9/5/2008

<b>Area</b>	<b>Number</b>	<b>Change from Last Year</b>				
<b>U.S.</b>	<b>2013</b>	<b>+199</b>				
<b>Canada</b>	<b>418</b>	<b>+83</b>				
<b>Int'l</b>	<b>1087</b>	<b>+79</b>				

# Slacking State Revenues

## Dealing with the Decline in Gas Tax Revenues Due to the Decline in Driving

Annette Nellen - July 28, 2008 - 2:51pm  
The Department of Transportation [announced](#) today that we drove 9.6 billion fewer vehicle-miles traveled (VMT) in May 2008 compared to May 2007. While that is good for reducing carbon emissions, it is bad for the Highway Trust Fund. When we use less gasoline, less gasoline excise taxes are collected.

According to Transportation Secretary Mary E. Peters: "By driving less and using more fuel-efficient vehicles, Americans are showing us that the highways of tomorrow cannot be supported solely by the federal gas tax."

# What Will State Legislatures Do?

1. Increase the current tax rate?
2. Defer spending on highway / bridge projects?
3. Tolling?
4. Something "creative"?
5. Nothing?

## Forecast & Crystal Ball

**There Will Be Change**

# What kind of change?

**CHANGE  
YOUR OIL**



Uh, inflate your  
tires? Ex. I KNOW:  
**A WINDFALL  
PROFITS TAX!**  
Uh, Well..., how about  
a sweater?

[www.chevron.com/cartoons](http://www.chevron.com/cartoons)

## Forecast & Crystal Ball

- Presidential Forecast Too Close to Call.
- Democratically Controlled Congress
- Economic Recovery?
  - Credit Sector recovery
  - Dollar Values / Exchange
  - Employment

## Forecast & Crystal Ball

- Geopolitical tensions will continue and will be major driver in energy price volatility.
  - “What will Russia do?”
  - “What will China do?”
  - “What will Iran do?”
  - “Africa”
  - “Middle East”

PUSH FOR THE WHITEHOUSE...



And for our Canadian friends



*See you next year!*