



INDEPENDENT LUBRICANT MANUFACTURERS ASSOCIATION

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November 16, 2009

Mr. Eric Johnson
GMPT-NA Fuels & Lubes
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Dear Eric:

On behalf of ILMA's Board of Directors, I would like to thank Rebecca Cox, Jo Lynne Parsons and you for the timely presentations on October 10, 2009, on General Motor's dexos™ global engine oil specification and the dexos licensing program administered by the Center for Quality Assurance. We appreciate your willingness to meet and discuss dexos with the Board, even at such an early hour that Saturday morning. ILMA has enjoyed a longstanding working relationship with GM on engine oil and automotive lubricant matters, including numerous presentations by GM representatives at our Annual Meeting and Management Forum. We hope that such valuable dialogue will continue.

As was evident from the question-and-answer period that followed your presentations to the Board, independent lubricant manufacturers have serious concerns with the dexos specification and how the licensing program is expected to operate. The Board felt it important to convey these concerns to GM. ILMA would like the opportunity to discuss these matters further with you and/or other GM representatives.

Your presentation indicated that GM has developed its individualized, dexos engine oil specification for all of its vehicles sold in North America, beginning in model year 2011. At a minimum, ILMA members and other lubricant manufacturers will have to produce and sell a dexos engine oil and an ILSAC GF-5 engine oil, beginning in late 2010. If the other automakers were to adopt the same business model as GM here in the United States, ILMA members and other lubricant manufacturers would have to make a different specification engine oil for each automaker's brand as opposed to the current ILSAC/OIL system of a single engine oil specification for all vehicle brands. This alternative, as you can imagine, is not attractive and is extremely worrisome to ILMA members.

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Subsequent to your presentations to the Board, ILMA reiterated its support for the American Petroleum Institute's Licensing Program to API and ILSAC as ILSAC/OIL attempts to reach agreement on the new ILSAC GF-5 specification. ILMA is concerned that the automakers, including GM, may withdraw their support for ILSAC/OIL and the API Licensing Program if the ILSAC GF-5 specification is not finalized by next month. The fact that, in the North American market, automakers and the oil industry have agreed on a universal motor oil specification so that the vast majority of vehicles can be serviced with engine oil that meets the API-SM and ILSAC GF-4 specifications provides a "level playing field" for independents to compete. The cost and complexity of securing approvals and/or licenses from multiple automakers with different engine oil specifications will create a significant competitive barrier to independent lubricant manufacturers, notwithstanding the likely confusion to and loss of convenience for consumers.

ILMA members also are concerned that dexos will be significantly more expensive to produce than a product made to the universal engine oil specification. It is estimated that the cost to make a dexos product will be in the range of 40% to 60% higher than the cost to make a current ILSAC GF-4 engine oil and will be some 30% higher than the anticipated cost of an ILSAC GF-5 engine oil. Independent lubricant manufacturers question whether the marginal benefits of dexos compared to the new ILSAC GF-5 specification are worth such cost differences. ILMA understands that a key cost driver for dexos will be the cost if molybdenum disulfide must be used as a friction modifier (\$22 to \$38 per pound), rather than zinc dithiophosphate (\$0.65 per pound). Some ILMA members also have questioned whether adequate Group III base stocks will be available to meet expected near-term demand.

The CQA presentation set forth that each dexos viscosity grade will require a separate license and the payment of either a \$0.36 per gallon royalty for licensed products or a "lump sum" for all licensed products. Because there are four dexos viscosity grades, the annual license fee paid to GM would be \$4,000. Under the API License Program, the comparable license fee for an ILMA member is \$1,250 per year with a royalty of \$0.0015 per gallon (assessed only after the first 1,000,000 gallons). Accordingly, ILMA questions why GM's royalty is and needs to be approximately 240% higher than API's royalty (not including the first 1,000,000 gallons without a royalty under the API license). We find disingenuous the one explanation that the royalties will be used, in part, to fund a consumer advertising program on dexos.

ILMA firmly believes that GM's substantial per-gallon royalty charge is a barrier to entry for independent lubricant manufacturers and poses serious competitive problems. For example, many ILMA members currently supply ILSAC GF-4 and API SM engine oils to local GM dealers. It is unclear at this time whether dealerships purchasing the GM brand of dexos product will be required to pay the same royalty that will be charged to non-GM brands with a dexos license. If the GM brand of dexos product (i.e., Mr. Goodwrench) does not have the royalty attached to it, then GM will have a significant cost advantage versus a licensed product when selling dexos product to its dealerships. ILMA members fear that many long-term dealer relationships will be lost through such price discrimination.

Further, it was unclear to ILMA from the CQA presentation how the lump sum royalty will be calculated. It is possible that a high-volume manufacturer (e.g., an oil company with some of GM's factory fill business) would be given a lump sum payment that translates to a substantially lower per gallon royalty than other licensees, creating an unfair price advantage in the market. The royalty under the API Licensing Program is a better example of a competitively neutral approach.

Independent lubricant manufacturers trying to "do the right thing" by participating in the dexos licensing program also are at substantial risk of being injured competitively by unlicensed and substandard dexos products. A similar problem has occurred in the automatic transmission fluid market. It was unclear from your presentations as to whether and how unlicensed products would be monitored for quality by GM and/or CQA. With a \$ 0.36 per gallon price differential in the market, cheating by unscrupulous oil marketers will be rampant. In addition to the health of a competitive engine oil market, consumers and GM will be harmed.

Here are two ways to look at this last point. First, your dealers and GM can deny warranty coverage for claims where a non-licensed dexos product was used. This creates a situation where the ILMA member pays the royalty for the dexos license, pays the claims improperly denied by GM (e.g., where the product met the dexos specification), or attempts on a case-by-case basis to prove to GM that its product did not cause the damage and the consumer's vehicle is covered by GM's warranty. Such proof is not always available or clear on its face. If the dexos royalty was comparable to the royalty under the API Licensing Program, a substantial competitive barrier to licensing would be eliminated and future disputes over warranty claims likely will be greatly reduced. Moreover, there also would be less incentive to cheat or underreport volumes, if the dexos royalty was comparable to the royalty under the API Licensing Program.

Second, the grant of a license to a lubricant manufacturer often carries with it an affirmative obligation to avoid claims of compatibility with non-licensed products. For example, Chrysler's license for its ATF + 4 automatic transmission fluid precludes the licensee from claiming that any non-licensed product meets the ATF + 4 specification, even if that is a truthful claim. It appears from the CQA materials that GM's dexos license will contain this or a similar restriction. However, such a restriction, when coupled with the significant royalty fee, creates the situation where an ILMA member must choose between having a dexos-licensed product and paying the substantial royalty or not having a licensed product and dealing with warranty claims (i.e., making the claim that the product meets the "performance requirements" of dexos). If the other automakers follow GM's lead on dexos, independent lubricant manufacturers will be unable to afford to license every engine oil specification, even if there is a market general engine oil package that could satisfy all of the automakers' specifications.

As you are aware, ILMA initiated a quality testing initiative in 2007 to sample randomly members' non-API licensed engine oils and to test them against industry standards and stated performance claims. The program was expanded in 2008 to include tractor hydraulic fluids. The Board has approved including Supplier Member products and

components in the program, beginning in 2010. We believe that the Association's program has had a positive effect in the marketplace. ILMA would welcome GM's participation on the industry task force that has oversight of the program.

Again, ILMA appreciates GM and CQA's dexos presentations. Hopefully, you and GM management will consider the serious concerns expressed above on behalf of our members. We remain available to discuss these matters at any time.

Sincerely,

A handwritten signature in black ink that reads "Celeste Powers". The signature is written in a cursive, flowing style.

Celeste M. Powers, CAE
Executive Director

cc: ILMA Board of Directors
Larry Kuntschik
Jeffrey L. Leiter, Esq.
Rebecca Cox, The Center for Quality Assurance
Jo Lynne Parsons, The Center for Quality Assurance