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January 6, 2004

By Facsimile and E-Mail

Mr. Robert M. Olree
Chairman, ILSAC/Oil Committee
c/o General Motors Corporation
Engine Engineering Building
Mail Code 483-730-322
823 Joslyn Road
Pontiac, MI 48340-2920

Re: Proposed ILSAC GF-4 Specification

Dear Mr. Olree:

The Independent Lubricant Manufacturers Association (“ILMA”) submits the following comments for consideration by the ILSAC/Oil Committee at its January 8, 2004 meeting on the draft ILSAC GF-4 specification.

ILMA appreciates the efforts by the ILSAC/Oil Committee to address the Association and other’s concerns with the future availability of Group II base oils as a result of the adoption of the GF-4 specification. We were provided yesterday with a copy of William Downey’s January 2, 2004 letter on behalf of Kline and Company (“Kline”), responding to ILMA’s December 4, 2003 comments on his October 22, 2003 presentation to the ILSAC/Oil Committee. While we have not had a similar month to review and answer Mr. Downey’s latest correspondence, suffice it to say that reasonable people can reasonably disagree. ILMA continues to question and disagree with some of Kline’s assumptions in its conclusion that Group II base oil supplies will be adequate to meet demand.

With all due respect to Mr. Downey and Kline, ILMA challenges his statement that “the biggest fallacy in ILMA’s assumption is that the integrated oil companies who produce Group II’s will use Group II’s in all of its captive product applications.” In a rational economic system, Kline’s analysis makes sense.

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However, we do not operate in a rational economic system. Even at “fire sale” prices, we doubt that captive Group II refiners will sell their higher-margin Group II oils in the merchant marketplace and switch to “cheap” Group I base oils for their industrial product applications. Refiners, as well as independents, have marketed industrial and other lubricant products with Group II base oils for performance and other reasons. ILMA finds it hard to believe that these manufacturers will make such a switch. Further, at some point, the additional Group II oils in the marketplace will depress prices, eliminating any higher returns to the refiner. Moreover, ILMA wishes it was as easy as Mr. Downey suggests for additional tankage to be purchased, installed and filled by independents.

ILMA’s concerns with the base oils supply balance is shared by others, including BP/Castrol and Petroleum Trends International (*see Lubes ’N’ Greases Magazine*, Dec. 2003 at pp. 12-13) The Association also believes that there are members of the ILSAC/Oil Committee who agree with our assessment of and concern with Group II base oil supplies. While ILSAC/Oil Committee may conclude that it has confidence in Kline’s analysis and forecast (“but not by much”), ILMA requests that the minutes of the ILSAC/Oil Committee’s final discussion of this issue unequivocally state that there remains a serious and legitimate disagreement in the industry about the base oil supply balance, especially for Group II base oils, over the next five to seven years.

The Association believes that the ILSAC/Oil Committee has created conditions ripe for restraints of trade with the implementation of GF-4. While the ILSAC/Oil Committee will point to the American Petroleum Institute’s (“API”) Lubricants Committee as the body that will decide the phase-in period for GF-4, it is the automakers on the ILSAC/Oil Committee who already have represented to the Environmental Protection Agency (“EPA”) through their trade associations that GF-4 oils will be “readily and widely available” by March 2005. The “readily and widely available” criteria established by EPA cannot be met by the automakers’ stated date when independents, which represent 30 percent of the market for passenger car motor oils, do not have approvals and API licenses for their GF-4 oils. At a minimum, ILMA requests that the automakers make a firm commitment at the upcoming ILSAC/Oil Committee meeting (and included in the minutes) to provide copies by a date certain of corporate statements of policy that their dealers can buy GF-4 oils prior to and after March 2005 from *any* company with the appropriate API license. Such statements are preferable to complaints from ILMA members that they have lost longstanding dealer accounts through “back room” pressure and “strong-arm” tactics from factory representatives to use only the automakers’ “product code” for engine oils in order to satisfy EPA’s “readily and widely available” criteria.

Similarly, it is the oil companies on the API Lubricants Committee who control the majority of base oil supplies, especially Group II base oils, and who, through their economic strength, control access to the additive companies for approvals. It is these same companies who will dictate the phase-in period for GF-4 oils as part of the API Lubricants Committee. If it is the intent of the ILSAC/Oil Committee to issue an engine oil specification without disrupting the

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competitive “playing field,” then ILMA requests that the ILSAC/Oil Committee should recommend to the API Lubricants Committee that the first use of licensed GF-4 oils not commence until a date when the additive companies have represented that they will have approved additive packages available to independents for API licensing.

In your undated response to ILMA’s September 2, 2003 comments, you indicated that the panel believes that it will be possible for certain GF-4 oils to be made with significant quantities of Group I base oils. The draft minutes of the ILSAC/Oil Committee’s December 17, 2003 meeting reflect your assertion:

The issue of an SAE 10W-30 oil meeting ILSAC GF-4 that is formulated with a significant amount of Group I base oil arose during the discussion of the comments on the November 4 draft. It was the technical consensus of the ILSAC/Oil Committee that it would be possible to make a 10W-30 ILSAC GF-4 oil with a significant amount of Group I base oil. The committee repeated the call to bring forward data on a 10W-30 ILSAC GF-4 demonstration oil. Members indicated that although this data was probably available, the release of this information to the public could be delayed.

ILMA is deeply troubled by the statement that “although this data was probably available, the release of this information to the public could be delayed.” The ILSAC/Oil Committee called on companies or organizations to provide information on SAE 10W-30 oils formulated with a significant amount of Group I base oil, but then agrees that any such information should not be shared with the public, including ILMA. If the technical consensus is correct, then the ILSAC/Oil Committee should immediately release any data it receives on demonstration GF-4 oils made with “significant amounts” of Group I base oils. ILMA will view as a restraint of trade any final adoption of GF-4 without the public release of such information.

It is not ILMA’s intention to obstruct GF-4. The Association supports the goals of the GF-4 oils; however, we remain deeply concerned that the process embraced by the ILSAC/Oil Committee and its members will cause competitive dislocations that will need to be remedied. The ILSAC/Oil Committee and API Lubricants Committee have the ability to minimize such dislocations through some of their final decisions and actions on GF-4. Again, ILMA appreciates this opportunity to share its views.

Sincerely,



Celeste M. Powers, CAE
Executive Director

cc: Kevin Ferrick, API
ILMA Board of Directors
Jeffrey L. Leiter, Esq.