



INDEPENDENT LUBRICANT MANUFACTURERS ASSOCIATION

June 28, 2004

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Honorable Spencer Abraham
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Secretary Abraham:

The Independent Lubricant Manufacturers Association (“ILMA”) supports your request last week to the National Petroleum Council (“NPC”) that it undertake a study of U.S. refining capacity, including the identification of the nation’s future demand for “refinery products.” For the reasons set forth below, the Association would like the Department of Energy (“DOE”) to ensure that the NPC study includes lubricants and lubricant base oils.

Introduction of ILMA

ILMA, established in 1948, is a national trade association of 142 manufacturing member companies, consisting largely of small businesses, ranging in size from fewer than 10 to more than 200 employees. As a group, ILMA member companies blend, compound and sell over 25 percent of the United States’ lubricant needs and over 75 percent of the metal removal fluids utilized in the country.

ILMA members are diverse. A large proportion of our membership manufactures automotive lubricants for original equipment manufacturers and for the retail market, either under their own labels or through contract packaging arrangements. Many produce lubricants for metalworking and heavy industrial machines, while others supply lubricants for mining, textiles, food processing, electronics, as well as many other industries. Clearly, lubricants are vital to the daily operation of the U.S. economy.

Independent lubricant manufacturers by definition are neither owned nor controlled by companies that explore for or refine crude oil to produce lubricant base stocks. Base oils are purchased from refiners, who are also competitors in the sale of finished products. Independent lubricant manufacturers succeed by manufacturing and marketing high-quality, often specialized, lubricants. Their success in this competitive market also is directly attributable to their tradition of providing excellent, individualized service to their customers.

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Base Oil Supplies

For the better part of the past year, there has been a vigorous debate in the lubricants industry over future supplies of lubricant base oils. Much of this debate has been driven by new, more stringent requirements for automotive engine oils (*i.e.*, GF-4), the upcoming General Motors Dexron III H specification (*i.e.*, automatic transmission fluids), and revisions to heavy-duty engine oil specifications (*i.e.*, PC-10) that currently are under development. These more stringent lubricant requirements have accelerated a market shift to higher-quality, more expensive lubricant base oils (*i.e.*, API Groups II, II+ and III).

As part of the development of the GF-4 automotive engine oil specification by the International Lubricant Standardization and Approval Committee (“ILSAC”), ILMA expressed concerns late last year for the potential for insufficient supplies of Group II base oils to meet near-term demand. In response to ILMA’s concerns, ILSAC commissioned an analysis, “Future Supply of and Demand for API Group II Basestock,” by Kline & Company (“Kline”). Kline’s assessment of the lubricant base oil supply and demand balance through 2010 was that supply would exceed demand, “but not by much,” if its assumptions were correct.

Petrotrends International, Inc. (“PTI”) published an article in the December 2003 issue of *Lubes ’N’ Greases* Magazine, summarizing a then recently-completed, comprehensive study of the North American lubricants base oils market. PTI concluded that by 2007 there will be a short supply of domestic API Group II base oils, whereas, API Group II+ supplies will be “tight.”

Since the Kline and PTI forecasts on lubricant base oil supply and demand balances were released at the end of 2003, ILMA has published articles in its monthly magazine, *Compounding*, and its weekly, online newsletter, *FlashPoint*, on base oil supply issues. Further, the Association’s Board of Directors and Executive Committee have received two oil company supply/demand forecast presentations this year.

More recently, CITGO Chief Operating Officer Jerry Thompson presented a more pessimistic forecast for lubricant base oil supplies at the 6th Annual OPIS Gasoline Marketing Conference in Orlando, Florida. After discussing a variety of topics, including energy and gasoline demand and refining capacity, Mr. Thompson warned attendees about the future outlook of lubricants and lubricant base oil refineries. Mr. Thompson predicted that the balance of the worldwide forecast for paraffinic base oils would decrease significantly over the next eight years. He outlined that, under the “most likely scenario,” the current U.S. surplus balance of 12 thousand barrels per day (MBD) would decrease to 4 MBD by 2008, and in 2012, the U.S. surplus would become a deficit of –6 MBD.

While ILMA can appreciate that your primary focus in requesting the NPC study is gasoline supply and demand, lubricants and lubricant base oils are critical to the U.S. economy, especially the manufacturing and transportation sectors, and our national defense. Thus, while lubricants and lubricant base oils do not draw media attention like \$2.00 per gallon gasoline, these products are part of the worldwide petroleum market and are subject to complex variables worldwide that will increasingly affect supply and demand conditions here in the U.S.

As part of your request that the NPC study American refinery capacity, you asked the federal advisory committee to “identify the nation’s future demand for refinery products...” Based upon our discussion above about the changing markets for lubricants and lubricant base oils, as well as their importance the U.S. economy, these products should be included in the NPC’s analysis. Accordingly, ILMA requests that you communicate to the NPC that lubricants and lubricant base oils be included in your reference to “refinery products.”

Industry, policy makers and the public all need accurate and up-to-date information. Hopefully, the inclusion of lubricants and lubricant base oils in the NPC study will provide such needed information.

* * * *

We appreciate your consideration of ILMA’s request.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul P. Converso". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul P. Converso
President

cc: National Petroleum Council
ILMA Board of Directors
Jeffrey L. Leiter, Esq.