



Iowa Renewable Fuels Association

Big Oil Uses Petroleum Distribution Monopoly to Thwart Competition

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Given a century of government subsidies and loan guarantees, Big Oil has created what amounts to a fuel distribution monopoly. Today a small number of companies control the refineries, they control what goes into the pipelines, and thereby they often control – and limit – what can be sold at the “independent” corner gasoline station.

The impact of Big Oil’s petroleum distribution monopoly is very real and very powerful.

What is the petroleum distribution monopoly?

Pipelines provide the most cost-effective mode of transporting liquid fuels. Today, many of the pipeline/terminal systems are owned and operated by independent companies. But the real control over fuel supplies remains with the refiners. The refiners decide what products are put into a pipeline and at what fuel terminals those products are taken out.

This year, despite the request of retailers, oil refiners refuse to supply the proper summertime gasoline blendstock for E15. The proper blendstock is already used at other locations in the pipeline system supplying Iowa, including cities such as Kansas City and Chicago. Due to environmental conditions, those areas require a cleaner burning gasoline (low volatility). Iowa has no such areas and, therefore, refiners are not required to supply the low volatility gasoline. By refusing to supply the low volatility gasoline, retailers are prevented from offering E15 as a registered fuel during the summer and oil companies maintain their 90% monopoly over our fuel supply. That is a clear example of how Big Oil’s fuel distribution monopoly can prevent free market competition and thwart the will of those retailers and consumers who want to use E15.

Why can’t the same gasoline used for E10 be used for E15?

Federal regulations dictate that conventional fuels during the summer (June 1 through September 15) adhere to a 9 psi limit on the Reid vapor pressure (RVP) scale (a measure of volatility of the fuel). The fuel volatility cap helps to reduce evaporative emissions.

When ethanol accounts for a minority of a fuel blend, the blended product will have a higher vapor pressure than the gasoline blendstock alone. However, in recognition of ethanol’s ability to reduce tailpipe emissions, long ago E10 was granted a 1 psi waiver from the 9 psi RVP summer limit. Therefore, E10 blends can have an RVP of up to 10 psi.

Even though the positive emissions impacts of E15 are even greater than E10, E15 has not been granted a similar one pound waiver. As a result, refiners can send a traditional 9 psi gasoline to Iowa in the summer for blending to E10 (it meets the 10 psi cap for E10). But blending 15% ethanol with that gasoline would result in a blend over the 9 psi cap for fuels other than E10.

During the winter fuel season (Sept. 16 through May 30) there is no RVP cap for conventional fuels. Therefore, the same 9 psi fuel can be used to blend both E10 and E15.

Retailers close to terminals carrying low RVP gasoline (like Kansas City) will be able to continue selling E15 during the summer, but most E15 retailers will be forced to restrict E15 sales to flexible fuel vehicles (FFVs) only. Alternative fuels for FFVs do not have the same summer RVP limits.

What can be done to break the petroleum distribution monopoly?

The market solution: Any oil refiner could choose to make a suitable E15 blendstock available in Iowa. The oil industry continually insists that the small number of refiners that service any given market does not prevent competition, but you couldn't tell that from looking at retailer efforts to offer E15 in Iowa. Only one refiner needs to decide to offer the gasoline suitable for blending E15 in Iowa. After all, a suitable blendstock is already delivered to Kansas City's low-RVP market using the same pipeline that goes through Iowa.

Why not simply go around the pipeline monopoly?

Iowa has no refineries. To transport products like E15 by truck instead of pipelines is costly and can result in the ethanol price savings being eaten up by the added transportation costs. For example, in the summer of 2012 IRFA received a quote of 17.5 cents per gallon to truck the low RVP gasoline from Kansas City to Iowa. This would eat up the 5-10 cents per gallon savings from the additional ethanol and result in E15 being higher priced than E10.

In short, there are no cost-effective ways to circumvent the pipeline system and the refiners' control over it.

Is there another solution?

The regulatory solution: Little can be done to prevent a tiny number of refiners from controlling what products go into any given pipeline system. However, steps can be taken to lessen the power of refiners to leverage their petroleum distribution monopoly to limit consumer fueling options.

Congress or the EPA could equalize the summertime RVP limits for E10 and E15. Either both ethanol blends could be granted the one pound waiver or both fuels could be held to the standard 9 pound limit. IRFA supports either alternative. It is our understanding that Big Oil opposes both solutions. If both E10 and E15 had the same RVP limit then the same gasoline could be blended with both – preventing Big Oil from using the regulatory quirk to limit consumer fuel choices.

The Renewable Fuels Standard

In an effort to erect a bogus E10 blend wall, Big Oil routinely tells policymakers that retailers don't want to offer higher ethanol blends such as E15 and that consumers don't want to buy them. The fact is that Big Oil does everything in its power to prevent the sale of E15 because it's cheaper, cleaner, and higher performing than gasoline. The petroleum distribution monopoly is just one way (out of many) that Big Oil attempts to prevent competition.

Iowa needs fueling independence and consumers want real choices at the pump – not Big Oil dictates.