

## **Mark W. Nelson- President-Dyno Oil Co., Inc. – Spencer, Iowa**

- Second generation petroleum marketer
- 9-Dyno's Convenience Stores serving 6 counties in NW Iowa
- Employ over 80 people
- Supply an additional 9 convenience stores that employ over 45 additional people

### **Below Cost Issue**

- We recognize that fuel prices have long been a “Hot Topic” among consumers. Now with the recent hurricanes causing supply disruptions and shortages we have seen record high prices. The concern over fuel prices will continue even though we have seen prices decline.
- Wal-Mart in conjunction with Murphy Oil was one of the first retailers to use the sale of gasoline, sometimes at a loss, as a means of drawing consumers from as far as 50 miles to their sites. Now other retailers like Hy-Vee, Mills Fleet Farm and others are doing the same in order to compete.
- There are however negative implications to Iowa, particularly in rural Iowa if this predatory method of selling retail gasoline continues.
  - There is no “free lunch”, something needs to be done with large retailers and Big Box stores that use gasoline as a loss leader and then mark-up the other products they sell to offset the loss of any profit on the gasoline they sell.
  - The impact of large retailers using gasoline as a loss leader affects not just independent gas retailers, but other small businesses within a 50-mile radius.
  - The cost to consumers may ultimately increase as competition is eliminated.
  - Availability of gasoline may decrease, especially during supply shortages.
    - Many “Big Box” retailers purchase gasoline on the “open market” or in other words without long term supply contracts. This “open market” is one of the first channels of trade to be cut-off during times of shortages.
    - The cost of “open market” gasoline is higher when supplies are short and lower when surplus gasoline is available.
  - The State of Iowa is promoting economic development in rural areas; large retailers using gasoline as a loss leader hinder this effort.
  - Small business is an integral part of the states economy, making up 86 percent of Iowa's businesses. (Iowa Workforce Development)
  - Predatory practices are not new, and if allowed to continue, they will do to independent gas retailers what super centers did to many other family owned businesses in Iowa.
- Some of the opponents to “Below Cost Legislation” are the very companies that will benefit by eliminating competition and/or being able to purchase existing independent retailers being put out of business, for pennies on the dollar.

- Companies using gasoline as a “loss leader” impact even large gas retailers like Casey’s General Stores. Casey’s even proposed some draft language to the House Sub-committee chaired by Representative Linda Upmeyer during the 2005 session that would have eliminated some of the problems.

There have been a number of studies that address the impact below cost selling and predatory pricing practices have on independent businesses. These studies also dispel the belief that below cost legislation will raise prices to consumers. Below are recaps of two such studies:

## **Evidence from the “Report of Minimum Markup Laws”**

**Published by the Wisconsin Policy Research Institute at  
The University of Wisconsin-Whitewater (2004)**

- The analysis provides empirical support for the hypothesis that the minimum markup laws reduce retail prices and markups in states that adopt them.
- The analysis shows that relying solely on first year pricing and margin effects erroneously misrepresent the actual benefits of minimum gasoline markup laws to consumers.
- A short-run analysis of the effects of a newly imposed or more restrictive enforcement of a minimum markup law within a state might conclude that the law permanently increases gasoline prices. As the analysis shows, such a conclusion is unwarranted and misrepresents the ultimate impact of minimum markup laws on the prices consumers pay for gasoline. Specifically, we provide empirical evidence indicating that prices and markups fall the longer the law is in effect.
- Prices consumers’ pay and the markup consumers pay decrease over time when a state has a minimum markup law.
- The study presents empirical support for the case that minimum markup laws do what they are supposed to do—lower gas prices to consumers.
- A study by Hastings (2001) provides compelling empirical evidence that the existence of independent gas retailers leads to lower gasoline prices.

## **Evidence from “Impact of the Wal-Mart Phenomenon on Rural Communities”**

**Published by the Farm Foundation in Chicago, Illinois. Study conducted by**

**Kenneth E. Stone, Professor of Economics, Iowa State University (1997)**

- The study indicates that quite often communities look at the short-term benefits of more employment, and increased tax base when a hypermarket enters a community. But in the long term, the situation often results in the loss of local businesses, which reduces employment and tax base.
- Studies in Iowa have shown that some towns below 5,000 population have lost nearly half their retail trade in the last 13 years due to rapid proliferation of discount mass merchandiser stores in the larger towns and cities.
- It becomes clear that towns under 5,000 populations bear the brunt of the discount mass merchandisers. In most cases these towns do not have a critical mass of retail stores needed to keep customers at home to shop, once newer and larger stores locate nearby.
- As can be seen the sales of eating and drinking establishments increased from three to seven percent over the statewide average for the Wal-Mart towns. Conversely, the sales of these establishments in the non Wal-Mart towns immediately declined and after 10 years were still nine percent below the statewide average. These results indicate that people leave the non Wal-Mart towns to shop in the Wal-Mart towns and while there, patronize the eating and drinking places. This is not only the case with eating and drinking places, but it is the same situation among home furnishing stores, building materials stores and specialty stores.

### ***Ethanol and it's role in this “Motor Vehicle Fuel Interim Study”***

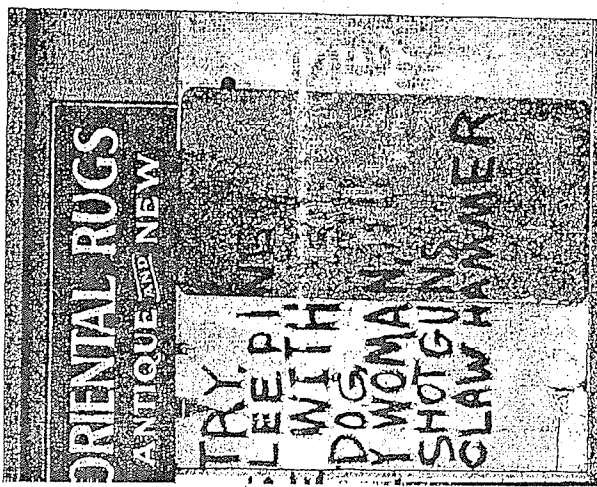
Ethanol, while not directly a part of this Interim Study, will be an important issue in the upcoming legislative session. The decisions made regarding “Ethanol” will have far reaching impacts on the State of Iowa and Petroleum Marketers.

There is frustration over Iowa’s lack of E-85 retail locations compared to the number of facilities in Minnesota and some are proposing an “Ethanol Mandate” as the solution. The following things need to be considered:

- A narrow scoped “Ethanol Mandate” is not good for the State of Iowa or Petroleum Marketers and it will not necessarily increase the number of E-85 locations in Iowa.

- There needs to be an incentive plan to reach defined levels of ethanol sales.
- Petroleum Marketers need to be part of the solution increasing ethanol sales as well as the number of E-85 retail sites.
- It was small petroleum marketers that introduced ethanol to Iowa in the 1970's. My father, Del Nelson imported the second load of ethanol brought into the state and then distributed it out among small tanks to get the blending of gasohol started. The same approach needs to be taken relative to establishing E-85 fueling locations.
- Some petroleum marketers are prohibited under their contracts with their suppliers (i.e.: BP, Shell) from substituting E-85 for premium gasoline grades currently sold.
- The economic climate is not conducive for petroleum marketers to make a large investment to sell E-85 with some large retailers expanding the number of locations that will use gasoline as a "loss leader". The increased number of locations selling E-85 in Minnesota is due in part to legislation prohibiting below cost sales of petroleum products.
- If E-85 sales are to increase there has to be an incentive and petroleum marketers have to feel that they have a future and will not be forced out of business by those selling gasoline below cost or using it as a loss leader.

Mason City Globe Gazette  
9/3/05



AP photo  
an outside a New Orleans business  
s in the wake of Hurricane Katrina. Some  
to leave New Orleans, even with unsani-  
a dangerous environment.

**Asks stories from Katrina**  
Continuing coverage of the aftermath of  
the Globe Gazette is looking for stories  
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LOCK

# Hy-Vee manager says gas prices not out of line

By BOB LINK  
Of The Globe Gazette

**MASON CITY** — When gasoline prices broke the \$3 per gallon mark earlier this week, the sign at Hy-Vee Gas was one of the first in North Iowa to bear the news.

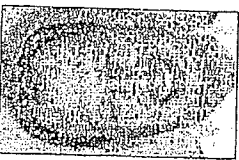
And when not all stations in the region went over that mark, Tracy Kading, manager of Hy-Vee East, said he heard whispers of gouging.

But nothing could be further from the truth, stressed the grocery store and gas station manager.

"We buy our gas off the daily gas market price," Kading said Friday. "Raising prices for a profit during a national disaster is not something we would do. Our store's reputation is at stake."

Kading said gasoline is the most "price-sensitive commodity" in the nation.

When the company's purchase prices increase, that increase is passed on to customers.



Kading



Miller

be the ones making the largest profits.

He said Hy-Vee would continue to offer gas-saving promotions, all aimed at keeping customers.

"I don't blame people for shopping for the best value," he said. "If people have questions I would be happy to show them our gas purchase invoices."

On Friday, Iowa Attorney General Tom Miller said there is no evidence the state's fuel retailers are illegally gouging customers.

Prices shot well beyond \$3 per gallon across the state as supply disruptions spawned by Hurricane Katrina continued to shake the nation's fuel market.

Miller vowed to closely monitor retailers statewide and stop any effort by stations or groups of retailers to artificially pump up prices.

"At this point, clearly we would say the retailers in Iowa are not engaging in any

illegal or unethical activities. And generally we would ask Iowans to be calm in this situation," Miller said.

"It's a difficult situation. But we see no need to hoard gasoline. The supply is sufficient. The price is outrageous but the supply is not a problem," he said.

Jennifer Moehlmann, an energy data analyst with the Iowa Department of Natural Resources, said wholesale gasoline prices have risen 60 cents per gallon since last Friday and that increase is being passed on to fuel consumers.

Regular unleaded gasoline topped \$3.19 per gallon across the state with ethanol-blended fuel selling for up to a dime less.

"Right now I would say (prices) will stay around the current levels through Labor Day," Moehlmann said. "At this point, I'd be shocked if prices went up to \$4 or \$5 per gallon or even \$3.50."

# Some refugees will be moved to Iowa

By DAN GEARINO  
Globe Gazette, New Orleans Bureau



victims to

Vilsack expects that many

reporters