“Retailers that don't diversify will be left in the dust”. Interview with John Eichberger

We sat down with John Eichberger, Executive Director of the Fuels Institute, to discuss the present and future of the North American fuel retailing industry.

After serving as a legislative assistant for Representative Greg Ganske (R-Iowa), in 2000 John Eichberger joined the National Association of Convenience Stores (NACS) in the role of Vice President of Government Relations. In 2013, NACS founded the Fuels Institute with Eichberger spearheading the new, non-profit research think tank.

PetrolPlaza: What is the Fuels Institute and which are its main goals?

J. E: The Fuels Institute is a collaboration of the auto industry, refiners, biofuel producers and retailers. We try to get the groups together to talk about trends, as well as opportunities and challenges in the market. We try to find out what questions we can help answer in an unbiased way so policy makers and business leaders can make more informed decisions. We also investigate industry trends to help people from the sector know where we are going. It has been a great opportunity to get the entire transit energy world together.

Could you give us an overview of the fuel retailing market in the United States right now?

We have seen an increase in gasoline demand but all forecasts say it´s going to start going down in the near future. There are new fuel efficiency standards for vehicles that require them to be 50% more efficient by the year 2030 or 2035. That is going to change the landscape. We will see an increase in the number of electric vehicles (EVs); probably by 2030/2035 we will start to feel the actual impact of EVs in the fuel retailing market, but we still have a liquid fuels market for a long time.

There is going to be an increase in biofuels through different formulations. The whole idea in the auto making industry is how to optimize an engine to get the most out of the fuel. That may require a change in fuel formulations.

Biofuels are present across the world in various forms. What would you say will be the base for biofuels in the United States?

In the U.S. it is still going to be crops. Ethanol is still predominantly corn-fed, while biodiesel is mainly soya beans - all agricultural based. There is a lot of investment in advance biofuels like ethanol that will come from forest waste and others. Others are using kitchen oil greases to produce biodiesel. Until there is a big breakthrough that brings those prices down we still have a problem of scalability.

The technology to convert almost anything into biofuel exists, the question is at what cost. With crude oil being the price it is we have not seen the economic incentive to bring those fuels to the market. Hopefully in the next few years we will see some technological advancement that will make these fuels more feasible and beneficial to the environment.

If high levels of fuel efficiency are reached in the near future and demand decreases significantly, where does that leave traditional fuel retailers?

In the U.S., we will soon be seeing a reduction in fuel consumption due to fuel efficiency, an increased EVs presence, and other fuelling alternatives – by the year 2040 these changes will be felt in the market. That means retailers need to change their business model, and it is an industry that does that very well. If you start seeing the demand for your primary product (fuel) decrease, what do you do to attract customers to your store? A lot of people are getting into food services, and there are other services they need to look into to diversify. Otherwise, they are going to be left in the dust.

Since the Volkswagen case, diesel has been widely discussed across the world. What is the situation of diesel in the U.S. and how do you see it developing?

Diesel in mainly used as a commercial fuel for trucks. Only 3% of light-duty vehicles on the roads are fuelled by diesel. The Volkswagen case won´t kill diesel. The Fuels Institute and NACS surveyed consumers straight after the case broke, consumer opinions on diesel hadn´t actually changed. In fact, it had improved in many cases. Consumers want accountability; as long as they feel like the company has paid for its deeds they are willing to support diesel. However, because Volkswagen had an 80% market share in diesel vehicles, vehicle sales have suffered. Auto makers are still committed to bringing diesel cars to the U.S. Now that diesel is pretty much on par with gasoline in price, people will probably start to buy more diesel cars.

What challenges and opportunities do higher octane fuels bring to the industry?

It depends. Auto makers say they need a high octane fuel to enable an optimized engine. A 98 RON fuel allows higher compression-ratio engine, higher fuel efficiency, lower emissions and higher performance. The problem is how you deliver a high octane fuel to the market in a way that makes sense. A lot of people think it needs to be a high ethanol blend, but that would leave out 220 million vehicles in the U.S. We need to figure out what the target is, the costs, think about the infrastructure that is needed… There needs to be a common strategy between all players involved. The Fuels Institute tries to help out by fitting together all the pieces of the fuelling puzzle.

What would you identify as the key trend in the fuel retailing market?

We are in a transition. We know that the liquefied fuel market is still dominant but everybody is attracted by shining objects, such as EVs and autonomous vehicles. We spend a disproportionate amount of our time discussing about these subjects which are less than 2% of the market. Long term the market is changing, but there is still a technological hurdle and a consumer evolution to be accomplished – it is not the millennials who are going to change the world, but the generation after them, the 0- to 15-year olds.

The younger generations are a sharing community, they rent and lease, they don´t buy. They also don´t have a passion for cars like people used to have.Technology is evolving to be ready for that moment. Retailers don´t need to worry about the present, but if you haven´t made any changes in the next 20 years you will probably be out of business. Once the actual change comes it will take off like a rocket.

We have discussed a lot about the future of the industry. What should fuel retailers do to prepare for what is to come?

Fuel demand went up over the past years but that is not going to last. There will be a 1% drop in fuel demand every year until at least 2035. That will have an effect eventually. My advice to retailers is, if you are building a store or revising a site, make sure you are manifolding your tanks and have give yourself options. Optionality is key. If you are laying concrete, you should run some power lines to possible parking spots where you could install a charger. You may not need it, but the option will be there. Reduce your costs now so you can take advantage of the opportunities when they arise; that means buying the most compatible equipment you can because fuel specifications are charging. They need to be ready.

Interview by Oscar Smith Diamante

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