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Ups and downs carry over into 2019

The year 2019 begins with oil producers again trying to rein in production. Supplies moved quickly from tight to bloated in relatively short order.

The past year was an odd one, as it began with the original so-called OPEC+ deal expecting to be carried through the entire 2018. Compliance with production cuts was impressive, something OPEC is not necessarily known for, but in the first half of 2018 over-compliance was balancing markets much quicker than expected.

At times, OPEC+ compliance rates topped 150% of the planned targets. The high compliance rates were part discipline and part happenstance. Troubled Venezuela's crumbling production rates have helped the OPEC+ group reach its balance targets.

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'Tis the season for gift card scams

Convenience stores can make money on gift cards this time of year – however, they also can lose money to gift card fraud.

The Federal Trade Commission recently posted an alert of a “disturbing trend” in 2018: Scammers are increasingly demanding to be paid with gift cards. Currently, the two most popular prepaid cards among thieves are iTunes and Google Play cards, FTC said.

The percentage of complaints FTC received of fraudsters demanding to be paid with gift cards or reload cards such as MoneyPak has increased 270% since 2015.

Gift cards are the No. 1 method of payment for imposter scams, which are among the most commonly reported complaints, the FTC said. These imposters don't just fool your customers, they can also con store employees.

Based on various accounts, fraudsters may pose as a corporate manager or technical staff. They might say they are testing store equipment or testing the prepaid cards to see if they work.

For example, a store might get a phone call and a request to load the card with a certain amount of money, say \$500. In some instances, callers saying they're from the corporate office claim the cards will expire and they require testing.

Law enforcement authorities also have said prepaid cards can be loaded with skimmed credit or debit card information and used to make fraudulent purchases.

“Gift cards are attractive to scammers because they provide anonymity and are very difficult to reverse once used,” the FTC warned. “If someone tells you to pay with a gift card, don't do it. Gift cards are for gifts, not for payments.”

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Gasoline Price Barometer

The new year begins with the outsized rack-to-retail margin environment continuing from where the fourth quarter left off.

The fourth quarter was the most profitable quarter since the beginning of the century, OPIS data reveal. The average U.S. gross margin during the most recent quarter was 34.4cts/gal, roughly 3cts/gal better than the next closest the fourth quarter of 2014.

Futures markets appear that they may have bottomed on Christmas Eve as RBOB is running almost a dime higher.

The rebound in futures has lifted cash gasoline markets east of the Rockies. One of the markets with the biggest moves higher has been Chicago. After bottoming at \$1.12/gal a few days after Christmas, prices have recovered. Discounts for prompt CBOB in Chicago have narrowed by a few pennies and that leaves prices close to \$1.20/gal. While Chicago gasoline has recovered, blendstock is still cheaper than ethanol.

West Coast markets have moved in the opposite direction as steep premiums to the futures market ahead of the holidays have given way to premiums that are still strong but well off the recent highs. In Los Angeles, CARBOB went from trading 57cts over the futures market two weeks ago to less than a 20cts premium at presstime.

(continued from page 1)

At a midyear meeting of the cartel, strong global growth and some geopolitical events on the horizon had OPEC+ considering a boost to output. The market was growing increasingly concerned with the hardline stance that the Trump administration was going to take with Iran once the U.S. pulled out of the Iran nuclear deal earlier in the year.

The concerns about tightening supply had OPEC+ revisit the production cuts and add barrels to the market. The additional barrels came primarily from Russia and Saudi Arabia. Both countries increased production to all-time highs. At the same time, with WTI prices in the upper \$60s to low \$70s and Brent in the mid-\$70s, U.S. production was also ramping up to all-time highs.

While output rates from some of the world's largest producers were intended to make up for lost Iranian production, concerns turned to spare capacity. OPEC members and Russia were producing at peak levels and any unexpected disruption from a producer could tighten markets significantly.

In early October, thin spare capacity and upcoming Iranian sanctions pushed WTI and Brent futures to the highest levels since the fourth quarter of 2014. Rising prices prompted financial news channels to beat the \$100/bbl oil drum.

As production increased, U.S. refiners were going into turnaround season. Concerns emerged about the global economy and crude oil supplies going from a deficit to a surplus in the U.S. as well as other OECD nations.

Arguably the biggest influence on the price collapse in oil was the Trump administration issuing temporary waivers from the sanctions for countries that import Iranian oil. That and other factors took oil prices from four-year highs to two-year lows in the span of 83 days from Oct. 3 to Christmas Eve.

The new year begins with OPEC+ trimming 1.2 million b/d from October's production levels. Exemptions were given to Iran, Venezuela and Libya. Overall, individual production rates will be cut by 2% and OPEC and non-OPEC producers will revisit supply in April.

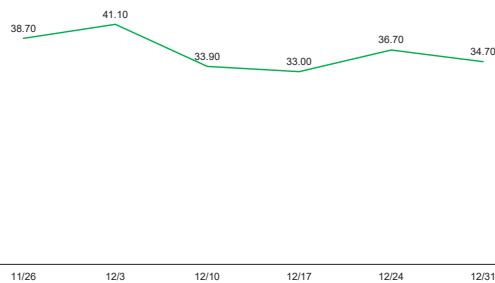
Between the production cuts, the first quarter and early second quarter can in particular shape the direction of the markets in 2019. Other big events that could shape the markets this year are the expiration of the temporary waivers for countries that import Iranian oil and the expiration of the ceasefire on the U.S.-China tariff trade war. The president has been confident the U.S. can cut a deal, but a stalemate and uncertainty could put significant pressure on commodity and equity markets in particular.

Geopolitics should once again be a significant factor in 2019 oil markets. A few years ago, many analysts expected oil to be living in a \$40-\$60/bbl world through the rest of this decade, but a \$50-70/bbl range may be more likely for 2019 and the early 2020s.

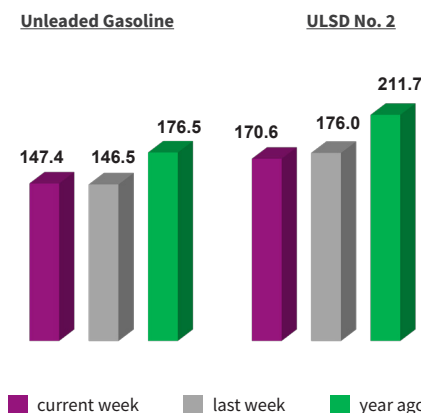
Other factors that will influence oil marketing include:

- **IMO shuffle.** The upcoming changes in specifications to marine fuel from the International Marine Organization are expected to

National Rack-to-Retail Margins (in cts/gal)



Average U.S. Contract Prices (in cts/gal)



result in a large market disruption. The specifications of marine fuel provided to the world’s shipping fleet by law will drop from 3.5% sulfur (35,000 ppm) to 0.5% sulfur (5,000 ppm). The lower-sulfur marine fuel as well as a robust demand from trucking and industrial activity is going to keep refiners focused on the middle of the barrel. Refining margins have been strong for much of this year for distillate, and at the same time, gasoline margins have been weak. Despite softer gasoline refining margins, the strength in distillate should keep utilization rates high through 2019 barring any unforeseen circumstances. A focus on distillate could leave gasoline supplies tight with a sudden spike in demand or refinery downtime.

- RIN volatility.** Volatility was a hallmark of most markets this year, but there were few that could compare to the Renewable Identification Number market. Ethanol D6 RINs began the year at around 70cts, but prices dropped to single digits in the second half of the year and to multi-year lows. The sharp drop in RIN values was tied largely to the EPA issuing multiple small-refinery exemptions. The EPA does not announce how many refineries were granted the exemptions, but reports indicate upwards of 20 refineries were given a pass on RIN obligations. RIN prices dropped to about 7cts in November, one-tenth the price they were at in January. However, since bottoming, RIN prices have just about tripled and were ending the year north of 20cts.

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Legal: Eight top challenges impact the industry through 2018 and beyond

From ongoing litigation over credit card swipe fees and agreements to meeting new federal regulations on testing underground storage tanks to health officials seeking to curb the sale of e-cigarette products, there was plenty for those in the fuel and retail industries to keep an eye on in the past 12 months.

Heading into 2019, here’s a look at some of the top regulatory and legal issues of the past year and how they may impact operations in the coming months.

- Underground storage tank rules.** New rules for the testing of underground storage tanks and associated equipment went into effect in some states in October, despite industry groups and their supporters in Congress urging the regulations be delayed an additional six years. Those calling for the delay warned there weren’t enough qualified contractors to install equipment required by the new regulations. Tank owners would also need to replace existing equipment not yet at the end of its service life, they warned.

But Barry Breen, EPA’s acting assistant administrator, said the new requirements focused on the parts of tank systems most likely to leak. Delaying the rules would only do more harm than good, since leaks would likely go undetected, increasing cleanup costs, he said.

Gasoline Supply Barometer

Gasoline supplies ended 2018 at comfortable levels, with the tendency for refiners to have one last burst of production before first-quarter maintenance gets underway.

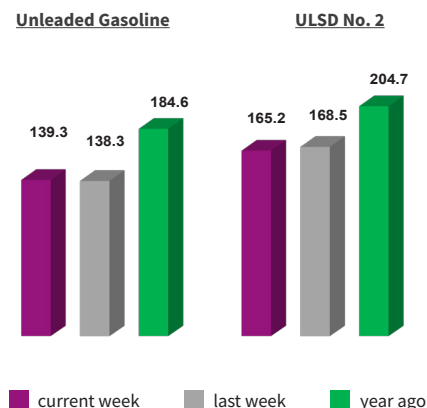
Total gasoline inventories ended the year at levels greater than 230 million bbl, a trend that has been popular over the past couple of years. While total gasoline supplies are running ahead of where they were a year ago and against the five-year average, all regions are not necessarily enjoying a solid supply surplus.

Western markets ended 2018 at a deficit as far as gasoline supply is concerned. However, the supply deficits are not necessarily daunting, with Rockies gasoline inventories just about 3% below where they were in late 2017 while the West Coast year-on-year shortfall is closer to 5%.

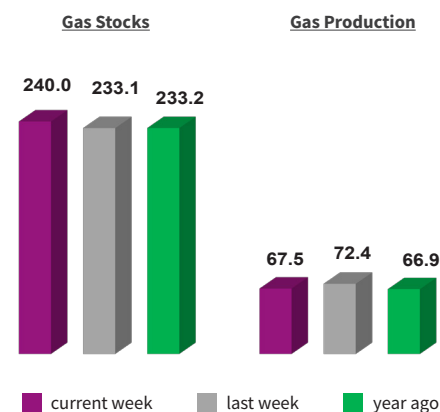
OPIS suspects that gasoline supplies will continue to remain comfortable in 2019, with the risk skewed toward an even more bloated supply situation. Based on current margins, refiners are hyper-focused on making as much diesel as possible, so even if gasoline demand falters somewhat, the strong outlook for diesel will continue to keep pushing gasoline into the market.

The real risk to bloated supply comes in the form of an export slowdown. 2018 saw refiners rely on the export pressure valve from keeping supplies from growing too much. However, competition for U.S. barrels is increasing, particularly from Asian refiners looking for a home for surplus fuel in Mexico and South America.

Average U.S. Spot Price (in cts/gal)



U.S. Refinery/Inventory (in million b/d)



Breen also said that since the regulations were finalized in 2015, many stakeholders, including tank owners and operators, planned their work based on the October 2018 deadline. The October deadline only applied in the 16 states and territories that have not received approval for their own programs to monitor USTs.

There are more than 553,000 active UST systems nationwide, and many of them will need to be retrofitted to meet the new rules on testing sumps, spill buckets and overfill prevention devices, fuel industry representatives said.

- **E-cigarette crackdown.** The U.S. Food and Drug Administration turned its attention to cracking down on teen use of electronic cigarettes and vaping products. Commissioner Scott Gottlieb originally signaled the agency was considering an online ban of e-cigarettes while it developed rules regulating internet sales. He also spoke of restricting the sale of flavored e-cigarette products to vape shops, which he claimed did a better job of checking IDs.

Retail groups urged federal officials to focus on punishing those who violate the rules, not make it more difficult for retailers who followed the rules. The FDA seemed to listen. Rules proposed in November weren't nearly as stringent as Gottlieb had warned, with the FDA calling for vaping flavors to be sold only in age-restricted stores, in age-restricted areas of regular stores, or at least kept out of sight of customers, such as under the counter. It also appeared the agency won't impose new restrictions on unflavored or menthol vaping products.

Retail groups are also speaking out against an FDA proposal to ban the sale of menthol-flavored cigarettes, with NACS saying in a statement that a ban would only shift sales to the black market.

- **Swipe fee suit.** A case winding its way through the courts since 2005 moved forward in 2018, with a federal judge saying she'd grant preliminary approval to a \$6.2 billion settlement to satisfy financial claims associated with a lawsuit brought against Visa and Mastercard over credit card swipe fees and policies.

Judge Margo Brodie's decision came after fuel industry trade groups urged her to reject the settlement, which provides monetary payment but leaves open questions about the card companies' swipe fee regulations for future legal action.

PMAA and SIGMA were joined by the National Association of Shell Marketers in arguing the settlement left open too many questions about what, if any, compensation branded retailers would receive through the settlement. The groups

also contended major oil refiners claim to be entitled to receive payment from the settlement fund that should be going to the retailers who sell their brands.

The class-action case was originally filed in 2005 by major retailers and trade organizations that claimed Visa and Mastercard conspired with banks to violate antitrust laws and charge merchants excessive swipe fees. A proposed 2012 settlement was overturned two years ago. Merchants can opt out of the proposed settlement and continue to pursue legal action against the credit card giants. Even if a majority of them accept the settlement, it's likely the case will drag on as they litigate the questions about the swipe fee regulations. Brodie has not yet approved the settlement.

- **Credit card skimming.** Credit card skimming has been around for a while, but authorities continued to take steps to combat the thefts. Many gas stations are working to accept EMV chip payment cards at the pump by Oct. 1, 2020. Card networks have warned they will shift certain fraud liability to gas stations that don't meet the deadline.

States are also looking to new regulations to get a handle on the problem. For example, Texas is drafting regs requiring all retail fuel stations to report suspected credit card skimming incidents to the Texas Department of Agriculture.

The U.S. Secret Service in November said it was launching a national crackdown on skimming at gas stations. At the time, the agency said it recovers about 20 to 30 skimmer devices per week, with the average skimmer having information for about 80 cards on it, according to reports.

Even local governments are seeking to adopt regulations to prevent skimming. Multiple municipalities in Florida, including Cape Coral, Punta Gorda and Estero Village have adopted measures requiring gas stations to take steps to prevent skimmers from being installed.

- **Food stamp crackdown.** Convenience stores were the target of the U.S. Department of Agriculture's Food and Nutrition Service crackdown on food stamp trafficking. As part of the effort, federal officials said retailers found trafficking in food stamps will be kicked out of the program.

Previously, retailers might be ordered to pay a fine or face a three- to six-month suspension from what is now known as Supplemental Nutrition Assistance Program (SNAP). The problem, legal experts warned, was stores stood a good chance of being penalized for making simple mistakes that violated program rules when ringing up purchases.

Statistics from the Congressional Research Service show the national retailer trafficking rate for 2012-2014 was 1.5%, up from 1.34% in 2009-2011. That new figure translates into an additional \$1.1 billion per year lost, the CRS said.

- **Hours of Service regulations.** Trucking is an important part of fuel supply operations, and in August the U.S. Department of Transportation said it was moving to make changes to Hours of Service regulations for commercial truck and vehicle drivers.

The proposal includes many changes sought by industry trade groups as the trucking industry deals with a shortage of qualified drivers. As the proposal was announced, the Federal Motor Carrier Safety Administration said the December 2017 regulation requiring electronic logging devices for commercial drivers prompted requests from Congress and the public for revisions to certain rules.

The proposed changes would: expand the current “short-haul” exemption from 12 hours on-duty to 14 hours on-duty; extend the current 14-hour on-duty limitation by up to two hours when a truck driver encounters adverse driving conditions; extend the current 14-hour on-duty limitation to allow for up to a three-consecutive-hour break for loading and unloading; allow drivers to count only the hours of their shift while actually on-duty towards the 14-hour daily limit; and revise the current mandatory 30-minute break for truck drivers after eight hours of continuous driving.

- **Food safety scares.** A California gas station faces what could be the first wrongful death suit involving tainted gas station food. The suit was connected to a botulism outbreak involving cheese nachos in 2017. In another instance, the Salt Lake County Health Department warned as many as 2,000 customers of a West Jordan, Utah, 7-Eleven could have been exposed to the hepatitis A virus through an infected store employee. 7-Eleven Inc. faced two other sizable food scares in October – a salad recall in Texas and a recall of three varieties of its Go-Go Taquitos.
- **Mobile fueling.** Mobile, on-demand fueling is a potential disrupter for the motor fuels industry, but also a potential new avenue for business for retailers. Still, like other new trends it is going through some growing pains.

Industry groups are working to ensure mobile fueling companies face the same requirements as traditional fuel retailers. The National Fire Protection Association recently came out with mobile fueling standards addressing various issues, such as driver training and environmental protection.

Efforts to expand operations are also encountering headwinds. Virginia in October amended its fire code to

prevent commercial mobile fueling except for emergencies, farm operations and off-road use, and earlier in the year legislation to permit mobile fueling was rejected. In Connecticut, a bill to allow it also failed to advance.

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Trends: 15 developments that are rocking your world

As gas stations invest thousands of dollars per site to meet the Europay Mastercard Visa technology standards for chip payment cards, wily crooks are cooking up ways to compromise chip cards.

Chip payment cards are considered more secure and harder to counterfeit than the old magnetic stripe technology because transaction data are encrypted.

Organized-crime rings have found a way to capture data from a chip card and manufacture a new chip to put on the card, experts said. The Krebs on Security newsletter said the U.S. Secret Service warned financial institutions that fraudsters were intercepting debit cards that banks mailed to large corporations and were replacing the chips on the newly issued cards with chips from old cards.

In Arizona, the state’s Weights and Measures Services Division investigated a website claiming to be a source of encrypted chip card data and allegedly using a device able to read chip card data.

Here are 14 more top developments:

- **Crime wave continues.** The number of robberies at convenience stores and gas stations rose for the fourth-straight year, even as the overall number of robberies in the United States declined in 2017, according to the latest federal statistics. The two classes of retailers, along with the category “commercial house,” were the only three of the FBI’s seven classifications to see increases last year, according to the FBI’s 2017 Crime in the U.S. report.
- **Marketers hit with ransomware.** The overall number of U.S. ransomware incidents doubled this year, as well as last year, and ransomware was found in 39% of data breaches in which malware was identified, according to Verizon’s 2018 Data Breach Investigations Report. Some 58% of breach victims were small businesses, Verizon said. As part of the energy infrastructure, oil marketers are vulnerable to cyberattacks. Anecdotally, some consultants and insurance professionals have said petroleum marketers have been victimized by ransomware, in

which a criminal uses malware that blocks access to the company's data and demands a ransom.

- **Big oil returns to retail.** Three majors – Chevron, Motiva and BP – entered retail fuel ventures with jobbers in 2018. BP also launched a chain of new-to-industry stores starting with a 3,100-square-foot ampm with eight fuel pumps in Rancho Cordova, Calif. Andeavor began converting some multi-site-operator stations back to company-operated sites, this time with a bigger, more sophisticated store model. On the heels of those conversions, Marathon Petroleum Corp. announced it would purchase Andeavor. MPC has aggressive plans to expand Speedway LLC, its company-op chain, both through acquisition and new-builds.
- **Major brands continue slide.** The percentage of fuel sold under a major oil brand sank to at least a nine-year low in the annual survey that SIGMA conducts of its members, continuing a slide that's been underway for at least five years. Only slightly over a third – 34.5% – of the fuel that respondents sold was retailed under a major brand, according to the 2018 SIGMA Statistical Report, which is based on 2017 statistics. The most recent drop was steeper than past decreases, although the data can be skewed based on which companies respond to the survey in a given year. The ratio of major brand outlets to private brand outlets in the SIGMA survey also dropped to just 36.1%, though in prior years that annual figure has not consistently shown decreases.
- **M&A escalates.** SIGMA's membership has continued to seize a larger share of the U.S. retail gasoline market. Only six years ago the membership sold about half the gasoline in the country, but now they are nearing two-thirds of the market. The trade group represents some of the nation's largest petroleum marketers, with members consistently selling a median of a little over 100 million gal of gasoline annually. SIGMA members' total gasoline volume has climbed 56% in the last 12 years, to 88.8 billion gal in 2017, from 56.8 billion gal in 2006. Contributing to the M&A frenzy, more foreign firms are buying U.S. stores.
- **Gasoline loses ground as a traffic builder.** The number of c-stores that sell fuel declined for the third-straight year and the percentage of total c-stores that dispense fuel dropped for the last four years, according to the 2018 NACS/Nielsen Convenience Industry Store Count. NACS said the decline in the number of c-stores selling fuel suggests the industry is focusing more on in-store, food service offers, as well as on new store formats, including establishing brands in more urban, walk-up locations.
- **Gas-n-go customers go inside.** In the recent NACS report, Time to Shop, the association says that now nearly half – 48% – of fuel customers went into the store the last time they gassed up. The latest figure represents a significant jump from 2015 when just 35% of fuel customers went inside the store. The biggest draw was a beverage purchase, according to the research. Another attraction was likely food service, NACS noted. Though nearly half of all customers said they were in and out of the store in less than three minutes, 21% spent more than five minutes inside the store, “most likely because they were ordering prepared food or dining inside the store,” the trade group concluded.
- **Driver shortage grows acute.** In its Trucking Activity Report, the American Trucking Associations said the industry experienced its highest level of driver turnover in three years. And in its Operational Costs of Trucking report, the American Transportation Research Institute found in 2017, total average marginal costs in the industry grew at “a brisk” 6.2% – more than three times the core rate of inflation. A large majority of that increase was driver wages (up 6.6%) and benefits (up 11.2%). More recently, ATA said turnover eased toward the end of 2018.
- **Loyalty programs move to next generation.** Programs are evolving as competition heats up between brands. The coalition loyalty program Plenti – involving ExxonMobil – folded. But another loyalty solution from FIS offering gas discounts to members of financial institution rewards programs is on the grow. Marathon canceled its proprietary rewards credit cards but Shell debuted rewards credit cards tied to the Fuel Rewards Program, a coalition loyalty program administered by Excentus. BP teamed up with United Airlines as a rewards partner and Marathon joined Southwest Airlines, La Quinta Inns, and the Arbor Day Foundation to form a new rewards program.
- **Brands continue the move toward mobile payment apps.** ExxonMobil, Chevron, BP, Phillips 66, Shell and Sunoco have made strides. Valero also said it will be launching a mobile payment offer in the first quarter of next year, joining other majors. Fleet card solutions providers also are rolling out mobile payment.

- **Car washes become a craze.** Though interest in food service overtakes all other potential diversifications, car washes are growing as profit centers. The NACS Show workshop “Your Next Big Category: The Car Wash” was so packed that NACS staff had to cut off admittance. Vendors said car washes can fetch a 70% gross profit margin and marketers point out even if EVs replace gasoline-powered autos, vehicles will still require a wash.
- **Internet threat emerges.** Amazon shook up the convenience-fuel business when it opened its first convenience store – a “cashier-less” Amazon Go store – in December 2016, and it is expected to expand the concept to other metro areas beyond its Seattle headquarters this year. Now it may be on the verge of getting into the retail gasoline business and travel, according to client notes published by a top Wall Street analyst. Amazon could use its financial muscle to acquire existing chains without denting its balance sheet and market fuel in the manner of a Costco Wholesale Club to its loyal customer base. But the Internet threat extends beyond Amazon. Grocery chains are expanding their Internet offers, which could have an impact on c-store traffic.
- **EVs are energized.** The Fuels Institute sees plug-in electric vehicles as a niche segment unlikely to seize a large share of the U.S. new vehicle market anytime soon and believes much of the positive press about EVs to be hype. But some industry pioneers said they are dabbling in EV charging stations, partnering with several charging networks that only require the merchant to provide a couple of parking spaces. They pay for the equipment, installation and utilities. If EVs take off, stores that have chargers become a destination. At the NACS show, dispenser-maker Gilbarco Veeder-Root announced that it had made a minority investment in Tritium, a privately held EV charging manufacturer, and displayed a fast-charging unit at its exhibit.
- **Biometrics are catching on.** Facial recognition technology seems to be gaining traction as an ID. At one regional trade show, at least two firms were exhibiting equipment using the technology – one to make ordering food faster and the other to identify potential shoplifters. BP showed off another form of biometrics at its show for branded marketers: Motorists pay for fuel with the swipe of their palm.

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Oil price plummet drives margins to record highs

The end-of-the-year swoon in crude oil and product prices proved a boon for retailers in 2018, producing the highest quarterly average rack-to-retail margins in the 21st century, according to data from OPIS' MarginPro.

Average national margins for the last quarter were 34.4cts/gal, compared to an average of 23.8cts/gal for the year. That puts the last three months of 2018 at 2.9cts/gal ahead of margins for final quarter of 2014, which had the second-highest margins since the year 2000. The two quarters were the only ones in this century to average more than 30cts/gal, according to OPIS data.

The average margin for all of 2018 was 23.8cts/gal, compared to an average 21.7cts/gal for 2017. Retail gasoline margins have averaged 17.1cts/gal in the 21st century, with margins in the second decade averaging 20cts/gal, OPIS data show.

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From the States: States adjust their 2019 fuel taxes

The year 2019 made its debut with average gasoline prices just above \$2.25/gal, reflecting a savings of about 23cts/gal from last year. Some modest increases in tax treatment are unlikely to offset descending wholesale prices, minimizing the impact from the higher levies in some states.

Florida raised its state motor fuel tax by 0.4cts/gal to 18.1cts/gal, and the Sunshine State also raised its rate for the State Comprehensive Enhanced Transportation System (SCETS) fee which moved up 0.2cts/gal to 7.6cts/gal.

Meanwhile, diesel tax rates moved up 0.4cts/gal to 18.1cts/gal while a package of various county and local rates moved up 0.2cts/gal to 14.8cts/gal. The total state and county rates on diesel rose 0.6cts/gal to 32.9cts/gal. Aviation gasoline will actually see a decrease this year, but not until July when the levy drops from 6.9cts/gal to 4.27cts/gal.

Nebraska raised gasoline taxes by 1.6cts/gal effective Jan. 1 and now boasts a total levy of 29.6cts/gal.

Utah moved up 0.6cts/gal to a 30ct/gal state motor fuel tax while North Carolina saw a small rate increase based on a formula that raised the fuel tax by 1.1cts/gal to 36.2cts/gal.

A number of states have indexed numbers that resulted in modest changes in 2019, and there were various tweaks with gross receipts taxes and other special items.

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Gas stations rival restaurants, plus more food service trends

Convenience stores and gas stations have become serious contenders for the food service business.

Along with supermarkets, some c-stores are giving traditional fast-casual restaurants a run for their money, according to a recent study from Market Force Information Inc., of Louisville, Colo.

C-store food service is among the top five fastest growing segments within fast-casual food service, increasing 4.8% year-over-year, reported Market Force in its 2018 QSR/Fast Casual Study.

“Restaurants are under siege from all angles due to the lines becoming blurred with competition from grocery stores,” the study said. “Even gas station convenience stores are upping their game.”

The market research firm said competition from many brands and other channels forces food service operators to differentiate their offerings.

In the sandwich category for fast-casual restaurants, Wawa took the lead in Market Force’s Sandwich Composite Loyalty Index, closely followed by Firehouse Subs. Market Force said Wawa’s No. 1 ranking was likely the “biggest surprise” in this year’s survey, as it was the first time a c-store took the top spot in the sandwich category.

“Wawa was one of the first convenience stores to use self-service touchscreens to place orders, eliminating order inaccuracy, always a top category of problems for QSRs (quick-service restaurants),” the study said, adding this could explain why Wawa’s overall problem experience category was just 1.6%, compared to 4% for

the rest of the c-store category overall and 8% for the overall burger category.

Some mature brands – including Subway, which is often paired with gas stations – are closing stores. In fact, that trend was led by Subway, which shuttered 836 units this year, Market Force reported. Subway took the No. 8 spot in the Sandwich Composite Loyalty Index.

“The sandwich and burger segments are proving highly competitive. Brands including Jersey Mike’s, Jimmy John’s and Firehouse Subs posted new unit growth putting pressure on the market leader, Subway,” the study noted.

Other important takeaways from the study:

- **There’s a shift away** from burger and sandwich segments and toward coffee/bakery, chicken and Mexican concepts.
- **Consumers are demanding** healthier options from fast-casual restaurants.
- **Restaurants are automating** more of their operations to combat soaring labor costs, particularly using ordering technology such as smartphones or tablets at tables or at kiosks.
- **Food delivery services** are “exploding.” The trend spans all age groups and one out of 10 survey respondents used food delivery services weekly.

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