



UNDERSTANDING FUEL PRODUCER PROCEDURES

Dear Buyer and Buyer Mandate:

As a seller mandate, I spend an inordinate amount of time explaining what is expected of buyers when engaging with my fuel producer suppliers. To save all parties time and establish realistic expectations, I've written this explanation to assist buyers in determining whether or not to work with us.

You will need to acknowledge that you have read and understood this document and the requirement to provide Proof of Funds to pay for storage before you may submit orders to Dragon Industries' suppliers. This is not a legal document, only an acknowledgement on your part as to your full understanding of what we expect from buyers.

TANK TO TANK PROCEDURES

PERFORMANCE-BASED PROCEDURES: Our producer tank to tank procedures are "Performance-Based," thus they're the "safest" procedures to use when starting a new relationship with our sellers.

1. The seller must provide a valid fuel analysis and inject the fuel into the buyer's tanks before receiving ANY form of payment from the buyer. **It must "perform" to get paid.**
2. The buyer must present ALL storage days and port codes necessary to COMPLETE the Trial Lift without interruption to the seller before receiving the proof of product documents and the fuel itself. It must also "perform" to get fuel.
3. TSA validations are done **electronically with the port authority**, primarily to determine if the tank farm is real and in compliance. Confusion sets in when buyers "assume" that all they need to do to get POP is provide a real TSA. **THIS IS NOT THE CASE.**
4. *Buyers are expected to **financially commit** to a fuel producer's transaction in the form of readily available storage. This is the same thing as making a large deposit into escrow when buying real estate. NO seller will take a buyer seriously without "seeing the money." In our industry, that deposit is represented by storage. **See the Financial Commitment Comparison, below.***
5. The buyer controls the storage, can take it anywhere it needs to, and can even get a refund if he chooses his tank farm carefully in the unlikely event of a transaction should not going through.
6. The seller does not benefit in ANY way from the buyer obtaining storage from its own tank farm except as previously outlined.
7. Our sellers make the fuel, so fuel quality is not an issue.
8. It makes NO sense for our sellers to issue a CI for fuel we do not have since we can only get paid after delivering it. If there are no tanks into which to inject the fuel, the seller cannot get paid.



UNDERSTANDING FUEL PRODUCER PROCEDURES

9. And no, you can't get one or two storage days and "promise" to get the rest after obtaining POP. We sell fuel, not POP. ALL must be in readiness to complete the lift before that is released.
10. There is no "free" POP when dealing with a fuel producer. If this is what you're seeking, you need to find a re-seller and pay their prices.

Our sellers require evidence of the storage in place through a variety of documents: Tank to Tank Injection agreements, Injection Programming agreements, Product Transfer Agreements, or Inspection Approval Letters. Whatever the document is called, it will require: Tank Numbers, Tank GPS Coordinates, a HUB Number, and Terminal Access Codes. All aspects of the buyer's storage capability will be checked and validated before a seller will issue POP (including trunk line access, etc.).

Besides the 7 producers Dragon currently represents, I've also been involved in transactions with Esso Netherlands, KNGP, KKM, Ecolait, EcoPetrol, Tobearal, RN-Tuapse, and have even read the Exxon-Mobil's SCO. ALL of their TTT procedures require the same thing: The Buyer's ability to complete the trial lift without interruption prior to receiving POP and fuel injection.

Remember this: The seller has the fuels, the seller makes the rules.

EXOTIC PROCEDURES: TTV, TTO, AND VTO

The overall concept is the same: Buyers must make a financial commitment to the transaction before they can receive POP. However, you'll likely see **two types of payments** required here: An initial one for a smaller tank extension paid to the seller (or its fiduciary receiver) to allow for a dip test and a larger one to the seller's logistics company to assure it that exiting the seller's tanks is covered at the outset. **Check with the Seller Mandate to know what to expect.**

In a VTO there is no way to take over a ship and divert it without a substantial deposit, so be prepared for this.

These are not as "arms-length" as the TTT procedures, since the payments show the seller and its logistic company that the buyer is committed to and prepared to finish the transaction. **We recommend using a TTT procedure if you have ANY DOUBTS about the seller on a first-time transaction to avoid any concerns here.**

Yes, you can often get a Refund Guarantee letter from the seller, but this is not perceived as the safest way of conducting business. The cash outlay prior to obtaining the fuel and receiving POP is considerably less than in a TTT transaction, however.

CIF PROCEDURES

Even here, producers are looking for a buyer financial commitment to the transaction, as well as speedy performance through the procedure itself. This commitment can take the form of shared



UNDERSTANDING FUEL PRODUCER PROCEDURES

shipping costs on the Trial Lift only (reimbursed through a credit against the fuel cost at delivery) or a cash deposit if the banking instrument is not delivered in a specified time frame.

Get your banking instrument started early. Waiting until you send back the SPA will guarantee you must make a cash deposit. You should start the moment you send in the ICPO. The cost of a valid banking instrument is roughly equivalent to the cash deposit in most cases.

THE COST OF A TRIAL LIFT

Before a buyer can receive Proof of Product documentation, he will have to make a SIGNIFICANT investment in logistics to meet the Seller's requirements. The buyer MUST be READY to lift without any interruption in the process and prove that to the seller's satisfaction, NO EXCEPTIONS. Seller procedures WILL NOT BE MODIFIED either BEFORE or DURING a transaction. Don't even THINK about it! Here are the costs (estimated, it will vary by port, fuel, and the tank farm) for typical FOB procedures:

Fuel:	Jet A-1	EN590	D6
Metric:	Barrels	Metric Tons	Gallons
Storage Cost/Day (est.):	\$75,000	\$80,000	\$85,000
Trial Lift Amount:	1,000,000	100,000	100,000,000
Tank to Tank (TTT)*	\$1,400,000	\$1,600,000	\$1,650,000
Tank to Vessel (TTV)	\$600,000	\$800,000	\$850,000
Tank Take Over (TTO)**	\$600,000	\$800,000	\$850,000
Trial Lift Amount:	2,000,000	200,000	200,000,000
Tank to Tank (TTT)*	\$1,700,000	\$2,000,000	\$2,075,000
Tank to Vessel (TTV)	\$900,000	\$1,200,000	\$1,275,000
Tank Take Over (TTO)**	\$900,000	\$1,200,000	\$1,275,000
*	TTT programs will also require approximately \$800,000 in port access, terminal access, and pipeline transport codes to be paid prior receiving POP.		
**	Ports require all EXIT days to be paid before TTOA registration		

Please check with YOUR logistics supplier for actual costs by port, fuel, and number of storage days



UNDERSTANDING FUEL PRODUCER PROCEDURES

SAMPLE FINANCIAL COMMITMENT COMPARISON (As a Percentage of Purchase Price)

1. Luxury Residential Real Estate – **5%** (\$10,000,000 price, \$500,000 deposit).
2. Commercial Real Estate – **3%** (\$15,000,000 price, \$450,000 deposit).
3. Luxury Motor Yacht – **10%** (10,000,000 price, 1,000,000 deposit).
4. *Fuel, 100,000 MT of EN590 – **1.3%** (\$43,000,000 price, \$560,000 “deposit,” assumes 7 days @ \$80K/day, estimated).
5. *Fuel, 2,000,000 bbls of Jet A-1 – **0.0047%** (\$132,000,000 price, \$630,000 “deposit,” assumes 9 days @ \$70K/day, estimated).

*Assumes the Buyer controls the storage, storage is portable, and the buyer can get a refund from the tank farm.

BEST STRATEGY:

START WITH A SMALL TRIAL LIFT. The goal of the trial lift is to COMPLETE it as quickly, efficiently, and cheaply as possible so you can GET INTO CONTRACT. You don't need a large trial lift to get into a great contract. Save money and save time.

OTHER CONSIDERATIONS

1. Pricing is refinery direct nor connected to Platts, which is based upon traders' prices.
2. Fuel Producers have a massive investment in their fuels through refining, transporting, and storing them at the major ports around the world, so they expect Buyers to make a similar investment prior to transferring fuel to them.
3. Producers do **NOT PROVIDE PROOF OF PRODUCT (POP) FOR FREE**. Buyers must demonstrate an INVESTMENT in the ability to RECEIVE fuel prior to receiving POP in a transaction, REGARDLESS OF PROCEDURE.
4. Seller Procedures CANNOT be changed in any way. **DO NOT ATTEMPT to negotiate the Procedure once a transaction starts.** This will ONLY lead to cancellation.
5. **If you trust the seller enough to send in an order,** please trust the seller's choice of logistics provider. Good sellers don't use bad logistics.

Procedures are like train tracks. If you stay on the rails, you get to your destination. If you go OFF them, you become a Train Wreck. **Don't be a Train Wreck!**



UNDERSTANDING FUEL PRODUCER PROCEDURES

WHAT MAKES A “GOOD” BUYER FOR US?

A real buyer:

1. Asks “How do obtain the fuel?” Not “How do I get your POP?”
2. Satisfies itself that a Seller is “real” before sending in an order.
3. Treats an order AS an order, not as an opportunity to negotiate the procedure.
4. Treats all aspects of the order (Seller’s logistics, fiduciary receiver, etc.) as real because of #2, rather than question each aspect of the process, slowing things down and costing the seller money in additional storage time.
5. Follows the Seller’s procedure and doesn’t attempt to change it during the transaction.
6. Doesn’t attempt to interpret the Seller’s procedure in ways that would circumvent it or argue with the Seller’s process.
7. Doesn’t ask for irrelevant data not provided for IN the procedure or BEFORE it is due to be disclosed PER the procedure.
8. Understands that the procedures are non-negotiable and work for BOTH parties.

**Trust the Procedure: It was created to sell fuel SUCCESSFULLY.
Follow it and you will get your fuel.**

Craig Higdon ©

Owner, Dragon Industries

I have read and understand the preceding (please sign, seal, and date):

Buyer

Buyer Mandate