

THE SHAPE AND FACE OF THE
UNITED STATES SYNTHETIC FUELS INDUSTRY

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You have had three strenuous days, hearing about many aspects of coal and its role in our Nation's energy future. By now, it is certainly clear that the mere availability of an enormously abundant energy resource does not assure that we will make full and effective use of it. The constraints--technical, economic, and political--are enormous. But so are the opportunities.

This afternoon I would like to discuss the constraints and the opportunities facing this industry and share with you my thoughts on the role of synfuels in our energy future.

The men and women who make up this industry are its strength: they are optimistic, geared to problem-solving, creative and venturesome. There is a sense of purpose among those who seek to advance synthetic fuels--not only in terms of the corporate balance sheet but also in behalf of America's future.

These qualities of the industry's leaders make the work of the National Council on Synthetic Fuels Production both exciting and rewarding. The Council is composed of companies with equity in projects as well as those involved in design and construction, research and development, finance, and equipment manufacture. We now stand sixty-strong, with our membership diverse and representative of the newly emerging industry. Our Pittsburgh area members, for instance--Gulf Oil, CNG Energy Company, Westinghouse Electric Corporation, and Dravo Engineers and Constructors--are a cross-section of our entire membership. The Council is committed to promoting aggressively the case for synthetic fuels before the American people, the press, and our business and political leaders.

My comments today will focus on the three questions I hear most often concerning the synfuels industry:

First, just where does the industry find itself right now--in the summer of 1981?

Second, in what ways will synthetic fuels contribute not only to our energy needs, but to broader needs for national security and economic growth?

And finally, what can we expect in the public policy arena that may affect the scale and pace of development of this industry?

In order to determine where the industry stands in its development plans, our Council recently completed its first survey of the U.S. synfuels industry, working with project sponsors so that our information would be accurate and current. The survey results offer some useful information:

Plans exist for almost 100 projects that can be described as potential commercial ventures. These include coal gasification and liquefaction, oil shale, tar sands, heavy oil, and coal-oil mixture projects.

The total production of these projects would displace approximately 3 million barrels of oil per day. The 20 shale projects in our survey would account for one-third of this total.

Extensive use of coal is also being planned. Sixty-nine projects will be either exclusively coal-based or will combine coal with petroleum, heavy oil, or tar sands products.

Coal-derived liquids will be a major product in 35 projects; medium-Btu gas is planned for 21 projects. Pipeline quality high-Btu gas will be produced in 11 cases, and one project would be designed for solid fuel production.

More than 40 of the projects have advanced beyond preliminary planning and feasibility studies. More than a dozen are in active development or under construction.

Hundreds of companies are involved in these projects as sponsors, partners, contractors and suppliers. There are opportunities for many smaller and medium-sized companies to participate in projects. By no means will this industry be monolithic; its dynamism breeds competition. The broad range of corporate involvement in these projects is a powerful indication of the willingness of this industry to move forward.

Our survey reveals a synthetic fuels industry poised at the edge of commercial realization. However, the final step to a commercial industry is a large one; one that is not at all certain given the current oil surplus on world markets and the shift in government synthetic fuels policy in the past year. No one who has been observing the synthetic fuels scene can deny that a fundamental reassessment of the need for synthetic fuels is underway--within government, within industry, within the media. The broadly shared sense of urgency that resulted in the passage of the Energy Security Act last year is now giving way to questioning and some skepticism. Should the federal government be involved in synthetic fuels development? Will synfuels ever be competitive with petroleum and natural gas, or will they remain a subsidized drain on the economy? Can private corporations be expected to invest their stockholders' money in expensive, risky, long-term synfuels projects when other, more attractive conventional energy investments offer a safer return? These are the hard questions facing the industry in the summer of 1981.

The first question that is fundamental to the industry's prospects is: how will the synthetic fuels industry contribute to our broader needs for increased national security and economic growth? I believe the linkage is direct and simple: we must encourage the growth of a domestic synthetic fuels industry as an integral element of national policies directed to ensure our long-term security and economic health. Thanks to the candor of Saudi Arabia's Sheik Yamani, we know how the leading producer of OPEC feels about synfuels--the possibility of a U.S. synfuels industry is already influencing the longer-term OPEC production and pricing strategy.

The problem this Nation will continue to face because of its need for imported oil will not be diminished by a temporary surplus of oil on world markets; they are long-term and serious. Let us look at several factors influencing our vulnerability to oil import disruptions and economic problems brought on by OPEC oil pricing.

First, there can be no assurance that current world oil production will be maintained at levels and prices required for long-term growth of the importing nations. Too many risks are too well known to merit extended discussion today. Any scenario for future world petroleum supplies must acknowledge uncertainty, with fluctuations heavily dependent upon the economic and political game plans of the producer nations. There has been no doubt since 1973 that OPEC members have linked energy production, pricing and distribution to economic goals and to political objectives.

Even our Canadian neighbors find that policies governing the export of oil and gas are not divorced from politics.

We must expect new alignments, political relationships, and persistent stresses on America's world leadership role. The fossil fuel vulnerability of Western Europe and Japan may cause new tilts in their foreign policies.

The eminent energy consultant and author Walter Levy recently wrote in Foreign Affairs that:

. . . Even in the short-to-medium term, no firm reliance can safely be placed on the future availability of the required volumes of Middle East oil in manageable prices. If nothing else, the experience of the 1970's should have taught us this. In spite of the present world oil glut, the outlook for most of the 1980's still looks to be highly precarious and, accordingly, it would be extremely imprudent if oil importers were to base their planning for the future on current market conditions.

Mr. Levy calls for a comprehensive energy policy among consumer nations, including "the production of synthetic oil and gas ... as a matter of highest priority."

Next, we must anticipate rising world-wide demand to result in ever higher price levels--even independent of OPEC pricing strategies. Exxon's influential paper, "World Energy Outlook," projected a total increase in non-Communist nations' energy demand rising about 2.2 percent annually between 1979 and 1990--despite intensive conservation measures. The paper concluded that if world demand for OPEC oil is to be held to 30 million barrels per day by 1990 (an increase of only 5 million barrels over current depressed demand), consuming nations must move aggressively toward alternatives, including up to 2 million barrels per day of synthetics.

To look further ahead, a recent study by the International Institute for Applied Systems Analysis in Vienna concluded that, even if world population and industrial growth rates are less than 2 percent each year by 2030--less than 50 years from now--the earth's people--some eight billion of them--will use three times as much energy as today.

What do these disturbing projections tell us? They tell us that extraordinary, continuing price increases are inevitable in the face of rising demand, even considering major conservation efforts.

Just as the evidence is overwhelming that imported oil will be susceptible to disruption in supply, costly and burdened with geopolitical excises, it is indisputable that our economy will continue to be sensitive to these problems. ~~The export of massive amounts of capital for imported energy makes little political or economic sense, regardless of the rate of inflation.~~

On the other hand, it is also clear that a domestic synfuels industry represents an enormous economic opportunity--for jobs, for new technologies, for modernization and expansion of hundreds of firms that must produce the necessary components of a commercial-scale industry.

This leads me to the final question--what can we expect in the public policy arena that may affect the scale and pace of this industry? The same question might have been asked in the early months of the Administrations of Presidents Nixon and Carter, both of whom held serious doubts about synthetic fuels and the role of government in their development. In time, and under the pressure of events, each moved toward more activist views. Ultimately, each President saw synthetic fuels as a necessary element in national security and undertook strong public policy initiatives in synfuels development.

These steps were not proposed with the objective of making synthetic fuels "economic"--that is, profit making--exclusive of all other criteria. Other goals, including national energy and economic security, were applied in measuring the benefits and costs of a national synthetic fuels program. And the Congress overwhelmingly accepted the validity of this approach.

Let's look at current government policy on synfuels. During the first eight months of his Administration, President Reagan has sought to place much greater reliance on free market incentives to attain greater energy self-sufficiency. This approach has been accompanied by a less aggressive, direct government posture toward synthetic fuels. We have seen:

Severe budget cuts in fossil fuel research and demonstration.

Prolonged Administration decision-making on the interim synfuels program.

Protracted delay and uncertainty about the Synthetic Fuels Corporation's operation and leadership.

Luke-warm support for synfuels in the recent National Energy Policy Plan, which suggests that reducing U.S. dependence on imported oil is no longer a high priority objective in and of itself.

The National Energy Policy Plan states it succinctly:

The Administration has restructured the national synthetic fuels program to rely more heavily on private investment initiatives and less on the general taxpayer.

The development pace for a U.S. synthetic fuels industry will be determined appropriately by private investors, with assistance from the Synthetic Fuels Corporation ... Decontrol of conventional fuel prices, revitalization of the economy, and removal of regulatory uncertainties will improve the growth climate for synthetic fuels.

I think it is safe to say that America's synthetic fuels industry can expect to find little direct financial support from the federal government.

On the positive side, the Administration's objective of removing government from the energy marketplace could eventually benefit synthetic fuels as well as other energy sources. Relying on its strategy that minimizes direct financial assistance, the Administration stresses the opportunity for greater domestic production. This can be stimulated by various measures:

Total decontrol of oil and gas prices.

Tax relief that will encourage greater capital formation.

Revision of federal leasing policies to allow greater access to shale, coal and tar sands.

Easing of environmental regulations.

Sweeping regulatory reform to permit more rapid approval of energy projects, including synfuels.

The synthetic fuel industry's response to these two policy goals--less direct federal assistance and more reliance on private sector decisions and initiatives--has been somewhat mixed. American businessmen strongly support the basic economic goals of the Administration, and the decontrol of energy prices as one means of reducing government intervention in the marketplace.

However, there has been no clear signal that the U. S. Synthetic Fuels Corporation will become an effective instrument of national energy policy. Many companies with projects before the SFC have serious questions about the commitment that organization has to the development of a commercial synthetic fuels industry in this country. In the financial and investment community, there is still considerable skepticism that the SFC is adequate to the task of putting in place a number of first-generation projects. Until these questions can be answered, through direct and aggressive action by the SFC, a large number of potential commercial projects will be on hold. Lengthy delays in SFC action could kill a number of projects.

Today--with the highest priority deservedly going to redirect government spending and tax policies--it is doubtful that the federal government will modify significantly its stated policies toward synthetic fuels. The energy industry largely accepts the Reagan priorities, and the principle of private sector leadership. But we must also recognize the national purpose to be served by furnishing this unique weapon to our energy arsenal. Project sponsors must have consistent and firm signals from the national administration. The most important weathervane to observe may well be the Synthetic Fuels Corporation. If its pace is deliberately sluggish, if its decisions smack of ideology, it will surely dampen enthusiasm for synthetic fuels. Projects--including many which will never seek a dollar from the SFC--will find investor enthusiasm dwindling beyond the point of no return.

We look to the Synthetic Fuels Corporation to act firmly and aggressively in carrying out the mandate of the law which, I remind you, was entitled with full justification the "Energy Security Act."

We have no need to wish for another energy crisis to inspire yet another crash effort; what the synthetic fuels industry must have, however, is public policy consistency, patience, and a recognition of the invaluable contribution it can and should make to America's future.