

# SYNFUELS STAYIN' ALIVE?

*Critics charge that the synfuels program is a waste of billions, a fiscal Frankenstein*

*Advocates answer that synfuels are a necessary hedge against oil embargoes*

By ANDREA ROWAND

The U.S. Synthetic Fuels Corporation (SFC) opened in December 1980 with an optimistic staff, a congressional mandate to midwife the birth of a private-sector substitute fuel industry and over \$14 billion for its mission. Less than four years later, no money has been disbursed, mission goals of prodding production of 2 million barrels daily of synthetic fuels by 1992 are now cautiously set at 135,830 barrels, and congressional critics wonder why.

SFC was to prod private industry toward producing synfuels from shale oil, tar sands and coal by offering federally insured loans and promising price subsidies to make the product competitive. "We were on our way when all this happened. It was exciting. Everybody really believed in the program," says one SFC employee, who has been with the firm since it opened and who requested anonymity. "[Now] we're at a virtual standstill. We can't do anything. It's frustrating."

Part of what's happened at SFC is that five of its seven-member board of directors have resigned since January, leaving the tax-supported firm without a quorum and unable to do business; its chairman, Edward Noble, has come under intense criticism on Capitol Hill. Meanwhile, President

Reagan in May asked Congress to rescind \$9 billion from SFC's \$14 billion, and has refused to name new members to the board of directors. A Senate bill asks \$2 billion be taken from SFC. A House bill with 50 co-sponsors wants \$11 billion pared from the SFC budget, with \$5 billion of the remainder to go to the Department of Energy (DOE) for research to slash the high price of synthetic fuels (synfuels).

But on June 28, the House Appropriations Committee voted down proposals to cut the SFC budget. This signals a political struggle ahead over the firm's future, says Keith Laughlin, aide to Rep. Howard Wolpe (D-Mich.), who sponsored the \$11 billion reduction bill. "Support for the program is very thin," Laughlin says, "but well placed."

The House Rules Committee also has refused moves to strip funds from SFC. But in a rare move, House members last week overrode that decision by 261 to 148, leaving SFC vulnerable to fiscal death.

One supporter is House Majority Leader Jim Wright (D-Texas), who criticizes Reagan's proposal and says the President is derelict for not naming new SFC directors. Another is Rep. John Murtha (R-Pa.) of the Appropriations Committee, who says synfuels are critical—regardless of their price tag—to ward off the economic upheaval that would follow another series of 1970s-style oil embargoes.

"It [synfuels] is essential. Our bottom line is when we're back in a shortage, it becomes cost effective. And Mr. Murtha is certain that at some time we will be," says Murtha's aide, Bill Allen.

According to John Oshinski, a statistician with the Washington, D.C.-based American Petroleum Institute, the United States is just as dependent on foreign oil now as shortly before the 1973 Arab oil embargo. While overall consumption has decreased, the percentage of imported oil remains the same. In 1973, oil imports accounted for one-third of the 17.1 million barrels consumed daily. They also accounted for one-third—5.3 million—of the 15.8 million barrels average daily consumption for the first five months of 1984, Oshinski says.

Foremost, the key issue is whether syn-

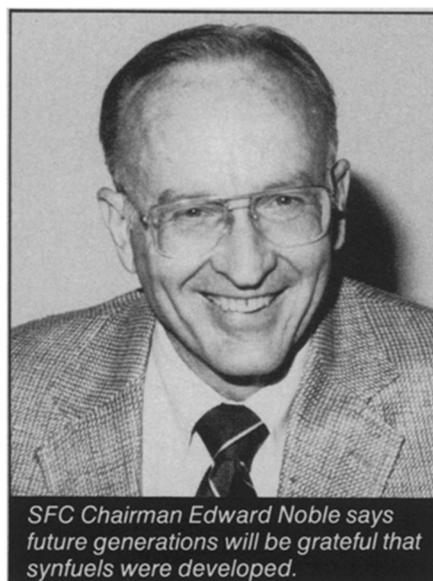
fuels are economically viable in a depressed oil market (oil sold for \$34 per barrel in late 1981; it sells for an average of \$28 now; synfuels cost two to three times the current market price), or ever will be competitive (SN: 1/8/83, p. 24). A second issue is whether SFC has in fact failed, or would have done better with a chairman other than Noble. Rep. John Dingell (D-Mich.) calls for Reagan to oust Noble for "neglect of duty or malfeasance."

"Congress gave this corporation [SFC] a mission... this public duty was converted into a private relief act for a select few," Dingell accused at a June 27 hearing of the House Energy and Commerce subcommittee on Oversight and Investigations, which he chairs. "We intend to probe fully the mismanagement and utter failure of this government corporation."

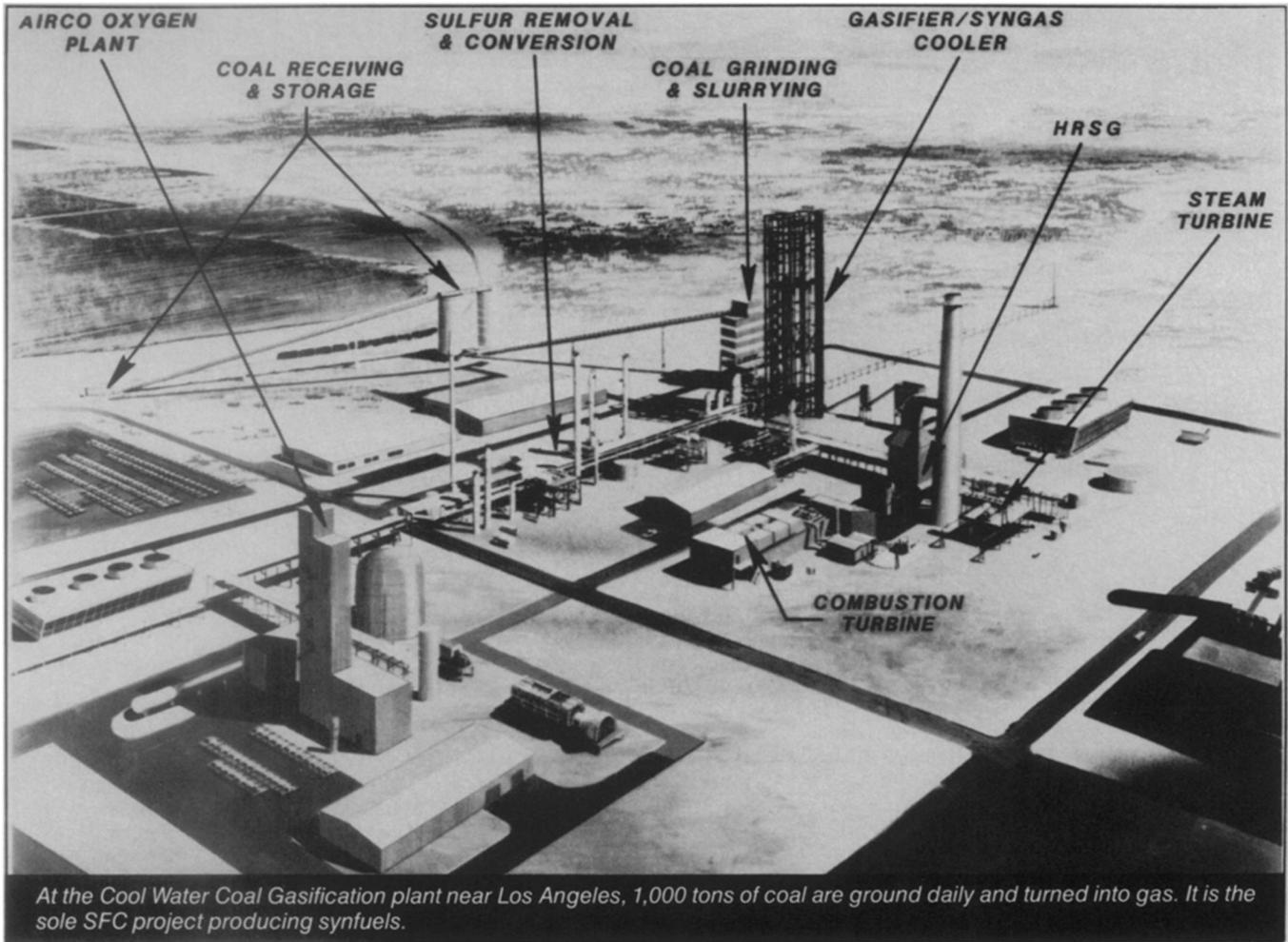
Noble counters that he has led SFC with good private business practices, and simply didn't understand federal bureaucracy well enough to side step congressional furors. "I'm as anxious to go home as some folks are who want to send me home. I'd like to get a little credit for being prudent and responsible," Noble says. SFC has spent no money—although \$740 million in price supports are promised soon to



Rep. Howard Wolpe (D-Mich.) terms the Synthetic Fuels Corporation a bottomless financial pit.



SFC Chairman Edward Noble says future generations will be grateful that synfuels were developed.



two synfuels ventures — because the firm agreed to guarantee loans and price subsidies only to those private companies with the best plans for building plants to manufacture synfuels, Noble says. The SFC is now on the brink of success, with projects that “are expected to return substantial profits to taxpayers,” he adds.

But Dingell and other subcommittee members disagree. Each dollar of synfuels produced will cost taxpayers a one dollar subsidy, and private industry has largely ignored synfuels — despite the carrots of loan and price supports dangled by SFC — because current technology just can’t make synfuels profitable, says Rep. James Broyhill (R-N.C.). “This [SFC] is going to be the biggest program of waste and abuse I’ve ever seen,” Broyhill says.

The troubled SFC has also been brushed by scandal. An investigation published last fall by *Newsday* found that Noble did not put all his business ventures into blind trusts, as he had promised in 1981. Noble Associates, run by Noble’s brother, is associated with some firms seeking SFC aid, and the Long Island newspaper reported that 83 percent of SFC business has involved firms that are involved with Noble’s family. Noble says there was no conflict, and his spokeswoman, Karen Hutchison, says his business has since been placed in blind trusts to avoid a semblance of conflict. That this was not done earlier was “an

oversight,” she says.

SFC is stalled between a rock and hard spot, agree staff workers of several congressional subcommittees. “Views on synfuels are very mixed. Everybody agrees that what we’ve got now is intolerable,” says Roger Staiger, of a House fossil and synthetic fuels subcommittee.

But Congress was wildly enthusiastic when they created SFC with the 1980 Energy Security Act. “There was almost a frantic pace on the [Capitol] Hill. Everybody had a synfuels bill,” recalls Bob Porter of the DOE. Broyhill says that the vagueness of this 1980 act is the heart of current troubles — Congress handed SFC a mission, production goals and \$15 billion of the \$88 billion earmarked for synfuels, but gave neither guidance on how to accomplish the mission nor required that SFC account for itself to Congress.

Politics and economics are not the only troubles besetting SFC; the technology is hardly state-of-the-art. While synfuels can be, and are, produced, technological advances that would lower the price are nowhere in sight, says Porter. Plants such as newly opened Cool Water near Los Angeles give much-needed experience, Porter says.

At Cool Water, soon to receive \$120 million in SFC subsidies, 1,000 tons of coal are ground daily to the consistency of baby powder. The coal powder is mixed with

water, heated to 2,000°F under high pressure, with oxygen added to oxidize the thick mixture, yielding gas. Finally, the gas is burned to produce electricity, with heat from the burn funneled into a conventional steam turbine that churns out yet more electricity — to a maximum capacity of 100 megawatts daily, says Paul Engel of the Cool Water plant.

Another \$620 million in subsidies is promised to Dow Chemical Company’s Syngas operation in Louisiana, but that plant won’t open until 1987.

Meanwhile, at SFC, about \$4.17 billion in price supports are tentatively intended for three synfuels projects (SN: 5/21/83, p. 329). And employees are reviewing 18 new proposals from private firms asking SFC help. “The staff [at SFC] will do as much as we can. When a board is in place, they can move quickly,” Hutchison says.

The White House has indicated that new directors may soon be named, she adds. Once SFC has a quorum, the firm will move quickly to grant loan and price aid to some new synfuels ventures, Noble says. But whether the newest proposals for synfuel projects received by SFC are worthwhile remains a topic of debate. “You say these are great projects and you know full well they aren’t,” Broyhill told Noble in June. Future generations, Noble replied, will have to decide whether the 1980s synfuels push was at all worthwhile. □