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## Lawmakers Push for Big Subsidies for Coal Process

By [EDMUND L. ANDREWS](#)

WASHINGTON, May 28 — Even as Congressional leaders draft legislation to reduce greenhouse gases linked to [global warming](#), a powerful roster of Democrats and [Republicans](#) is pushing to subsidize coal as the king of alternative fuels.

Prodded by intense lobbying from the coal industry, lawmakers from coal states are proposing that taxpayers guarantee billions of dollars in construction loans for coal-to-liquid production plants, guarantee minimum prices for the new fuel, and guarantee big government purchases for the next 25 years.

With both House and Senate Democrats hoping to pass “energy independence” bills by mid-July, coal supporters argue that coal-based fuels are more American than gasoline and potentially greener than ethanol.

“For so many, filthy coal is a dirty four-letter word,” said Representative Nick V. Rahall, Democrat of West Virginia and chairman of the House Natural Resources Committee. “These individuals, I tell you, have their heads buried in the sand.”

Environmental groups are adamantly opposed, warning that coal-based diesel fuels would at best do little to slow global warming and at worst would produce almost twice as much of the greenhouse gases tied to global warming as petroleum.

Coal companies are hardly alone in asking taxpayers to underwrite alternative fuels in the name of energy independence and reduced global warming. But the scale of proposed subsidies for coal could exceed those for any alternative fuel, including corn-based ethanol.

Among the proposed inducements winding through House and Senate committees: loan guarantees for six to 10 major coal-to-liquid plants, each likely to cost at least \$3 billion; a tax credit of 51 cents for every gallon of coal-based fuel sold through 2020; automatic subsidies if oil prices drop below \$40 a barrel; and permission for the Air Force to sign 25-year contracts for almost a billion gallons a year of coal-based jet fuel.

Coal companies have spent millions of dollars lobbying on the issue, and have marshaled allies in organized labor, the Air Force and fuel-burning industries like the airlines. [Peabody Energy](#), the world’s biggest coal company, urged in a recent advertising campaign that people “imagine a world where our country runs on energy from Middle America instead of the Middle East.”

Representative Rick Boucher, a Virginia Democrat whose district is dominated by coal mining, is writing key sections of the House energy bill. In the Senate, champions of coal-to-liquid fuels include [Barack Obama](#), the Illinois Democrat, Jim Bunning of Kentucky and Larry Craig of Wyoming, both Republicans.

President Bush has not weighed in on specific incentives, but he has often stressed the importance of coal as an alternative to foreign oil. In calling for a 20 percent cut in projected gasoline consumption by 2017, he has carefully referred to the need for “alternative” fuels rather than “renewable” fuels. Administration officials say that was

specifically to make room for coal.

The political momentum to subsidize coal fuels is in odd juxtaposition to simultaneous efforts by Democrats to draft global-warming bills that would place new restrictions on coal-fired electric power plants.

The move reflects a tension, which many lawmakers gloss over, between slowing global warming and reducing dependence on foreign oil.

Many analysts say the huge coal reserves of the United States could indeed provide a substitute for foreign oil.

The technology to convert coal into liquid fuel is well-established, and the fuel can be used in conventional diesel cars and trucks, as well as jet engines, boats and ships. Industry executives contend that the fuels can compete against gasoline if oil prices are about \$50 a barrel or higher.

But coal-to-liquid fuels produce almost twice the volume of greenhouse gases as ordinary diesel. In addition to the carbon dioxide emitted while using the fuel, the production process creates almost a ton of carbon dioxide for every barrel of liquid fuel.

Coal industry executives insist their fuel can actually be cleaner than oil, because they would capture the gas produced as the liquid fuel is being made and store it underground. Some could be injected into oil fields to push oil to the surface.

Several aspiring coal-to-liquid companies say that they would reduce greenhouse emissions even further by using renewable fuels for part of the process. But none of that has been done at commercial volumes, and many analysts say the economic issues are far from settled.

“There are many uncertainties,” said James T. Bartis, a senior policy researcher at the RAND Corporation, who testified last week before the Senate Energy Committee. “We don’t even know what the costs are yet.”

The clash between “energy independence” and global warming will break into the open next month. The Senate energy bill, being drafted by Senator Jeff Bingaman, Democrat of New Mexico, would promote renewable fuels — but not coal-to-liquid fuels — and would require electric utilities to produce 15 percent of their power with renewable fuels by 2020.

But coal-state Republicans have vowed to resume their push for coal incentives when the bill reaches the Senate floor, and many Democrats are likely to support them. In the House, Democrats like Mr. Boucher and Mr. Rahall will be pushing in the same direction.

But some energy experts, as well as some lawmakers, worry that the scale of the coal-to-liquid incentives could lead to a repeat of a disastrous effort 30 years ago to underwrite a synthetic fuels industry from scratch.

When oil prices plunged in the 1980s, the government-owned Synthetic Fuels Corporation became a giant government albatross that lost billions and remains a symbol of misguided industrial policy more than 25 years later.

“This is the snake oil of energy alternatives,” said Peter Altman, a policy analyst at the National Environmental Trust, an environmental advocacy group. “The promises are just as lofty and the substance is just as absent as the first snake oil salesmen who plied their trade in the 1800s.”

Coal executives contend that the technology for converting coal to “ultraclean” diesel fuel for use in cars and trucks has been around for decades. Known as the Fischer-Tropsch process, the technology dates to the 1920s. It was used by Germany during World War II and by South Africa during the apartheid era, in both cases because the countries were blocked by international embargoes from buying oil.

SASOL, a South African chemical conglomerate, is the world’s largest producer of coal-based liquids and operates a plant that produces 150,000 barrels a day.

“Greener and cleaner — we can do it, and we will do it,” said John Baardson, president of Baard Energy, a firm in Vancouver, Wash., that is trying to build a \$4 billion coal-to-liquid plant in Ohio.

But no company has built a commercial-scale plant that also captures carbon, and experts caution that many obstacles lie ahead.

“At best, you’re going to tread water on the carbon issue, and you’re probably going to do worse,” said Howard Herzog, a principal research engineer at the [Massachusetts Institute of Technology](#) and a co-author of “The Future of Coal,” a voluminous study published in March by M.I.T. “It goes against the whole grain of reducing carbon.”

The M.I.T. team expressed even more skepticism about the economic risks. It estimated that it would cost \$70 billion to build enough plants to replace 10 percent of American gasoline consumption.

The study estimates that the construction costs for coal-to-liquid plants are almost four times higher than the costs for comparable petroleum refineries, and it argues that cost estimates for synthetic fuel plants in the past turned out to be “wildly optimistic.”

In a new report last week, the Energy Department estimated that a plant capable of making 50,000 barrels of liquefied coal a day — a tiny fraction of the nearly 9 million barrels in gasoline burned daily in the United States — would cost \$4.5 billion.

But the Energy Department also estimated that such a plant could produce a 20 percent annual return if oil prices remain about \$60 a barrel.

Coal executives say that they need government help primarily because oil prices are so volatile and the upfront construction costs are so high. “We’re not asking for everything. All we’re asking for is something,” said Hunt Ramsbottom, chief executive of [Rentech Inc.](#), which is trying to build two plants at mines owned by Peabody Energy.

But coal executives anticipate potentially huge profits. Gregory H. Boyce, chief executive of Peabody Energy, based in St. Louis, which has \$5.3 billion in sales, told an industry conference nearly two years ago that the value of Peabody’s coal reserves would skyrocket almost tenfold, to \$3.6 trillion, if it sold all its coal in the form of liquid fuels.

Coal industry lobbying has reached a fever pitch. The industry spent \$6 million on federal lobbying in 2005 and 2006, three times what it spent each year from 2000 through 2004, according to calculations by [Politicalmoneyline.com](#).

Peabody, which has quadrupled its annual lobbying budget to about \$2 million since 2004, recently hired [Richard A. Gephardt](#), the Missouri Democrat who was House majority leader from 1989 to 1995 and a candidate for the Democratic presidential nomination in 1988 and 2004, to help make its case in Congress.

One of the most vociferous champions of coal-to-liquid fuels is the Southern States Energy Board, a group organized by governors from 16 states. Last year, the group published a study, which cost \$500,000, that concluded that coal-to-liquid fuel could and should replace almost one-third of imported oil by 2030.

As it happens, the coal industry supplied much of the financing for the study and subsequent marketing. Peabody Energy contributed about \$150,000 and the National Mining Association added \$50,000, officials at the Southern States Energy Board said.

The inducements under discussion would not only subsidize up to 10 coal-to-liquid plants, but also guarantee a minimum market through long-term contracts with the Air Force and minimum prices for at least some producers.

“There is financial uncertainty, which is inhibiting the flow of private capital into the construction of coal-to-liquid facilities,” said Mr. Boucher, who supports most of the proposals and is drafting portions of the energy bill.

In addition to construction loan guarantees, Mr. Boucher would protect the first six liquid plants from drops in energy prices. If oil prices fell below about \$40 a barrel, the government would automatically grant loans to the first six plants that make coal-based fuels. If oil prices climbed to \$80 a barrel, companies would have to pay a surcharge to the government.

But the most important guarantee, many coal producers said, is the prospect of signing 25-year purchase contracts with the Air Force.

The Air Force consumes about 2.6 billion gallons a year of jet fuel, and Air Force officials would like to switch as much as 780 million gallons a year to coal-based fuels. Air Force officials strongly support the idea of extremely long contracts, but others at the Defense Department worry that the military could be left holding the bag for years if oil prices dropped significantly.

For Mr. Boyce, chief executive of Peabody Energy, there is no reason to be timid.

“If America has the will to be one of the great energy centers of the world,” he told an industry conference last year, “we have the resources right under our feet.”

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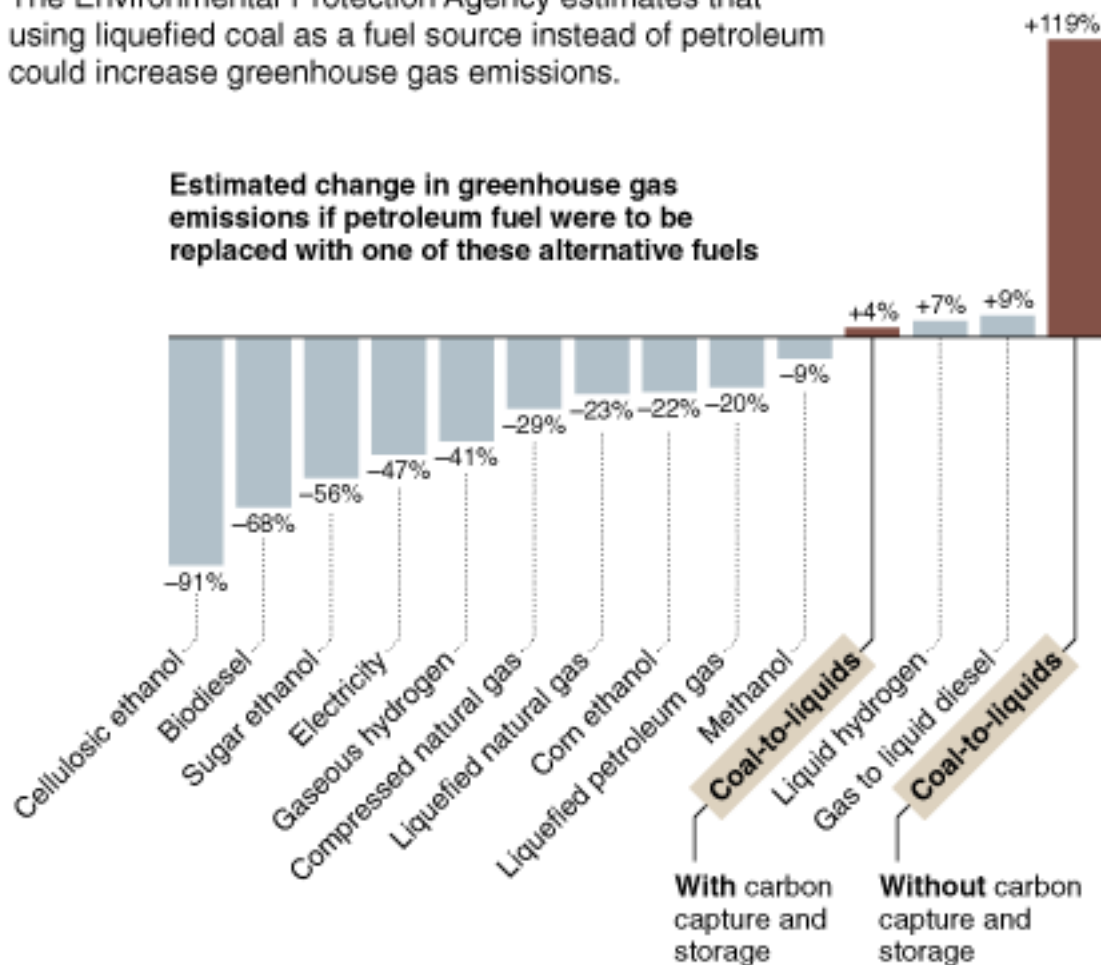
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# Comparing Fuels

The Environmental Protection Agency estimates that using liquefied coal as a fuel source instead of petroleum could increase greenhouse gas emissions.

**Estimated change in greenhouse gas emissions if petroleum fuel were to be replaced with one of these alternative fuels**



Note: The estimates include emissions from all parts of the process of making the fuels including fossil extraction, feedstock growth and distribution as well as averaging for the different methods of producing the fuels.

Source: Environmental Protection Agency

The New York Times

