Posted on Mon, Apr. 16, 2007

ConocoPhillips, Tyson team on project

By John Porretto

AP Business Writer

HOUSTON --
Oil major ConocoPhillips and Tyson Foods Inc., the world's largest meat producer, said Monday they're teaming up to produce and market diesel fuel for U.S. vehicles using beef, pork and poultry fat.

The companies said they've collaborated over the past year on ways to combine Tyson's expertise in protein chemistry and production with ConocoPhillips' processing and marketing knowledge to introduce a renewable diesel fuel with lower carbon emissions than conventional fuels.

But some renewable-fuel advocates say ConocoPhillips will be able to take unfair advantage of a tax credit designed to create new refining capacity for clean-burning fuels, even though they'll be using existing refineries.

ConocoPhillips said it planned to spend about $100 million over several years to produce the fuel, Chairman and Chief Executive Jim Mulva said at a news conference. It hopes to introduce the fuel at gas stations in the U.S. Midwest in the fourth quarter of this year.

Tyson said it will begin preprocessing animal fat at some of its North American rendering plants this summer. Tyson President and CEO Richard Bond said his company's potential investment would likely be less than that of ConocoPhillips.

The oil company and Tyson, based in Springdale, Ark., said the finished product will be renewable diesel fuel mixtures that meet all federal standards for ultra-low-sulfur diesel. They expect to ramp up production over the next couple of years to as much as 175 million gallons a year - which Mulva said would amount to about 3 percent of ConocoPhillips' total U.S. diesel production.

"That doesn't sound like much, but it's very significant," Mulva said. "In a tight market, every incremental increase helps improve supply availability and reduces retail-price pressure."

The National Biodiesel Board, a trade association, noted Monday that ConocoPhillips and other large oil companies had successfully lobbied the Treasury Department to allow them to take advantage of a renewable diesel tax credit. That 2005 provision allows companies that create a type of renewable fuel from animal carcasses and other food wastes to qualify for a dollar-per-gallon tax incentive.

The board said the idea was to stimulate expansion of the technology needed to create that fuel and encourage development of new refining capacity. Two weeks ago, the trade association said, the Treasury Department expanded the provision so that companies like ConocoPhillips can produce diesel fuel from animal fats and vegetable oils using existing refining capabilities.

"The broader interpretation creates a tax loophole for large integrated refineries to subsidize to the tune of $1 per gallon their existing refinery capacity in a way that most likely will not result in new refinery capacity," said Joe Jobe, CEO of the National Biodiesel Board.

ConocoPhillips spokesman Phil Blackburn acknowledged the company discussed the issue with federal officials, but said that "government incentives are needed to make the product competitive in the market place."

ConocoPhillips said it developed the technology to create the new fuel at a plant in Ireland, where it began commercial production of renewable diesel using soybean oil late last year.

But the rising cost of soybean and other oils, which account for the bulk of biodiesel fuel stock, has led to the push to use cheap and plentiful animal fats. That shift to animal fat as a fuel stock could be key to making the budding biodiesel industry a reliable fuel source for U.S. trucking fleets, among other uses, experts say.

Biofuels are seen as a way to reduce harmful emissions and wean consumers off fossil fuels. For now, they account for an extremely small percentage of the world's fuel market.

"This strategic alliance is a big win for the entire agricultural sector because it paves the way for greater participation of fats and oils in renewable fuels," Bond said.

For companies like Tyson, the attraction is simple. Being the nation's biggest meat company, Tyson is also the biggest producer of leftover fat from chicken, cattle and hogs. Tyson said the alliance is expected to be a positive step for its "long-term financial performance."

Once the fuel is at full production in 2009, Tyson said it expects the venture to add between 4 cents and 16 cents a share to its annual earnings.

Last week, ConocoPhillips became the first major U.S. oil company to join a corporate/environmental coalition urging Congress to require limits on greenhouse gases tied to global warming.

ConocoPhillips shares rose 6 cents to close at $70.60 on the New York Stock Exchange. The shares have traded in a 52-week range of $54.90 to $74.89.

Tyson shares rose 45 cents to $20.90, also on the NYSE. Its shares have traded in a 52-week range of $12.75 to $20.71.