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Conoco Suspends Collaboration With Tyson to Make Diesel Fuel

By ISABEL ORDONEZ

ConocoPhillips said Wednesday it has halted its collaboration with Tyson Foods Inc. to make diesel fuel from animal fat.

The company said it idled the project in the fall after federal tax credits that helped fund the project were cut in half. Tyson supplied ConocoPhillips with animal fat from its meat processing operations, which the energy company processed into biofuel at its Borger, Texas, refinery.

Speaking to reporters after the ConocoPhillips's shareholder meeting in Houston, Chief Operating Officer John Carrig said production could resume if government incentives are reinstated.

The announcement reinforces the notion that major oil companies—which have been trying to boost their profiles as producers of cleaner fuels—won't hesitate to reduce their biofuels initiatives if projects become less profitable amid the economic downturn and changing legislation.

ConocoPhillips and Tyson Foods announced a strategic alliance in 2007 to produce transportation fuels from animal fat. ConocoPhillips said the Borger refinery, which can process up to 146,000 barrels a day of crude oil and is located near a Tyson Foods processing plant in Amarillo, was producing about 1,000 barrels a day of renewable diesel.

The tax credit for renewable diesel "co-processing" that helped fund the project was cut from $1 a gallon to 50 cents a gallon as part of the credit market bailout bill approved by Congress and signed by President Bush in late 2008.

While alternative fuels have been the beneficiary of numerous federal government support in recent months, this tax credit fell victim to a coalition of soap-industry lobbyists and lawmakers opposed to tax breaks for large oil companies. Soap and detergent makers were worried that the tax credit would drive up the price for animal fats, which they use in their manufacturing process. In a letter sent last September, a group of senators opposed the credit as an "extravagant" subsidy for big oil.

As a result of the cut to the tax credit, "the project was no longer economically feasible and was put on hold last fall," said Tyson spokesman Gary Mickelson. "Tyson and ConocoPhillips continue to discuss ways to resume the project. However, until the full tax credit is reinstated, production will likely remain suspended."

Tyson is still going forward with the construction of a biofuels plant near Baton Rouge, La., that is expected to start up in early 2010 and will have a capacity of 75 million gallons a year. The project is a joint venture with Syntroleum Corporation, but since it does not involve "co-processing," it still qualifies for the $1-a-gallon tax credit, Mr. Mickelson said.