US energy plan aims to cut oil use

By Carola Hoyos
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Barack Obama's new energy plan, which backs a greater use of ethanol and higher efficiency standards in cars, would cut US oil consumption dramatically and could lead to a glut of petrol and hard times for refiners.

Mr Obama aims to cut US oil demand by about 4m barrels a day, a sum equal to the combined daily consumption of France and Canada. "Within 10 years [we aim] to save more oil than we currently import from the Middle East and Venezuela combined," he said.

Part of that reduction will come from using ethanol instead of petrol. Refiners calculate that they would need to blend almost six times as much ethanol into their petrol than they do now.

Nobuo Tanaka, executive director of the International Energy Agency, the developed country's watchdog group, on Tuesday praised Mr Obama's initiatives.

"What Mr Obama is presenting is an energy revolution in the US" he said. "If the US changes policy, others will certainly follow."

He said the high car efficiency standards Mr Obama was espousing were very encouraging, as was his support for alternative energy.

Refiners warn that efficient cars running on a mix of petrol and increasing amounts of ethanol could bankrupt some refiners in the US and Europe as a big shift in trade flows and a glut of petrol develops in coming years. Independent analysts agree.

Johannes Benigni, managing director of JBC Energy, a Vienna-based analyst group, said recent high oil prices, energy legislation passed at the end of 2007 and the economic downturn had already damped US demand for petrol and prompted refiners to struggle.

Mr Obama's efficiency and ethanol policies would exacerbate this, he said.

US petrol demand is poised to fall 117,000 b/d annually until 2015 – the same amount it had risen each of the five years before 2007 and is expected to drop 2m b/d by the end of the next decade as existing ethanol regulations take effect, according to JBC forecasts.

In fact the change will be so dramatic that the US, the world's largest importer of petrol, is expected to become a net petrol exporter by 2023. "Obama's energy strategy will undoubtedly have a huge impact on American oil consumption," said Mr Benigni. And because US needs represent 45 per cent of overall global demand, the changes will be felt far beyond the country's borders, with several US and European refineries facing the prospect of being shut, he added.

Charles Drevna, president of the National Petrochemical & Refiners association, the trade group, warned that the chemical composition of a barrel of oil limited refiners' ability to shift away from petrol, thereby raising the prospect a glut of petrol and untenable losses for refiners. "I can't wave a magic wand and take a barrel of crude oil and make nothing but diesel out of it," he said. “If you are not going to continue making gasoline, you are not going to continue running a refinery that also makes petrochemical building blocks,” he added.

The US refining sector was hit hard last year by the downturn in profit margins, caused by high oil prices, swiftly followed by a collapse in petroleum products demand as the US economic downturn and high oil prices reduced the numbers of miles people drove and the size of the cars they bought. Valero, the biggest US refiner, announced on Tuesday it was shutting an entire refinery for the quarter because demand was so sluggish. Meanwhile, Lyondell Chemical, the US arm of Dutch LyondellBasell, sought bankruptcy protection this month.

Additional reporting by Sheila McNulty in Houston