

Interoffice Communication

To Conoco Environmental Council
From Terry L. Thoem *TERRY*
Date November 20, 1986
Subject 1986 API REPORT

Enclosed please find a copy of the cover letter and the three-page environmental portion of API's 1986 Report to the Membership. I thought you would find this interesting reading. If you have interest in the remaining portion of the report, please contact us and we will make a copy. It is 30-pages long.

TLT/sm
Enclosure

cc: Gary Achenbach
Brian Atkin
Steve Bell
Bob Heine
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MCD 000015978

1986

Report
to the
Membership

MCD 000015977

PRESIDENT'S MESSAGE

Nineteen eighty-six has been a most difficult year for the American petroleum industry.

The sudden collapse of world oil prices was catastrophic for domestic oil companies. While consumers enjoyed the benefits of real oil prices lower than they had been for 15 years, oil companies of all sizes were compelled to slash their exploration and production budgets by one-third to one-half compared with 1985. By early 1987, there will be a loss of some 200,000 oil industry jobs and a further 163,000 jobs in supplier industries of all kinds, according to an API survey of its members.

The human costs of this year's upheaval cannot be measured. The economic losses suffered by the states and regions where the oil industry is concentrated have been immense. For the industry, perhaps the most telling indicator of the magnitude of the collapse is the active rig count: halfway through 1986, it stood at a level lower than any observed since record keeping began in 1942, with 85 percent of the rigs active in 1981 idle.

The American Petroleum Institute has not been spared the cutbacks that have been made by every segment of the industry. Significant budget cuts for 1986 and 1987 have been accompanied by a reduction in staff, and API has had to stretch all of its resources to the full to meet its many responsibilities. The ongoing function of setting technical and operating standards for the petroleum industry could not be neglected. Neither, in a world where government involvement in industry affairs is ubiquitous, could API afford to reduce its presence in the political process on the federal, state and local levels as spokesman for the industry.

While continuing these vital tasks, API has worked

intensively this year to inform the public of the state in which the industry currently finds itself and to emphasize the serious implications for the nation's future energy security. API's reports have served as a primary source of data regarding trends in petroleum supply and demand, refinery operations and inventory and import levels. Because API has traditionally been the most authoritative and respected source of information about conditions in the petroleum industry, its input to the policy debate in academia, the media and the political arena is a vital part of the industry's case.

For several years, API has been pointing out that the increasingly evident world oil glut is necessarily temporary, because the dynamics of the world oil market guarantee that lower prices will cause demand to grow faster than supply. This year's price collapse, by encouraging demand and depressing investment in new supply even more than before, will make the turnaround sharper and sooner than it would have been otherwise. Studies by API and others suggest that, under current price conditions, demand for OPEC imports could grow at a sufficiently fast rate to leave the nation dangerously vulnerable to energy shocks within only three to five years.

API issued a major report, titled *Two Energy Futures: National Choices Today for the 1990s*, that elaborates on this theme. The report marshals facts and figures regarding the industry's current condition and explains why present trends presage a threatening future. It also shows how appropriate government policies designed to encourage rather than to damage investment in domestic production could significantly reduce the nation's future level of dependence on insecure and increasingly costly imported oil.



Charles J. DiBona
November 1, 1986

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HEALTH & ENVIRONMENT

Contradictions abound in the area of health and environment. Growing legislative and regulatory initiatives imply that environmental and health conditions are getting worse; the facts demonstrate just the opposite. Regulatory agencies dealing with waste management, pollution control and occupational safety issues tend to overestimate the need for more severe controls, while they underestimate the economic impact of their actions and the industry's commitment to environmental responsibility.

The means of satisfactorily resolving these contradictions are not at hand. Thus, the impact of government is likely to grow—unnecessarily in many cases—while the resources for responding to and complying with these actions are shrinking due to the industry's depressed economic state. These contradictions are a source of frustration, and they make good planning imperative.

Recognizing this situation, the Health and Environment group in 1986 reorganized the previous three departments into two and cut the number of committees from 39 to 19. This streamlining has helped the group attain its primary objectives:

- one department, Health and Environmental Affairs, responds to government regulatory initiatives; and

- the other department, Health and Environmental Sciences, provides a scientific basis through research and analysis for industry participation in the public policy process.

While successful so far, the group will continue in the coming year to assess the new organization's effectiveness in responding to the most crucial health and environment issues. These issues are: waste disposal and management; gasoline and vehicle hydrocarbon emission control; health effects testing of industry products, streams and chemicals; benzene and solvents; and outer continental shelf operations.

Health and Environmental Affairs

The Health and Environmental Affairs Department prepared more than 80 submissions to regulatory agencies over the past year—some 42 percent of all API's submissions to the government. The department's man-

date is to respond effectively and in a timely manner to legislative and regulatory proposals that could have substantial economic or operational effects on the industry.

The department's responses in 1986 have covered regulatory initiatives under the Clean Air Act, Clean Water Act, Resource Conservation and Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), Toxic Substances Control Act (TSCA) and Occupational Safety and Health Act. The department also assisted in responding to congressional activities on several of these laws.

The accomplishments of the department this year include the following:

- Commented that the Environmental Protection Agency (EPA) proposal under RCRA to list used motor oil as a hazardous waste is not supported by existing data and would discourage recycling practices. EPA is re-examining its initial proposal.

- Submitted to EPA extensive data on refinery processes and products as part of the record for deciding RCRA requirements for burning and blending. EPA granted an exemption for refinery products.

- Filed extensive comments and held numerous discussions with EPA before the agency published its proposal to ban land disposal. The published proposal incorporated a "risk assessment" approach that could be effective. However, objections by some members of Congress have caused the agency to consider making the proposal extremely restrictive. This could place land farming in jeopardy and significantly increase the industry's disposal costs. An aggressive program has been initiated to prevent this from happening.

- Regarding natural resource damage assessments under CERCLA, made suggestions on the definition of "damage" and alternative approaches for different spill volumes. The comments were reflected in the Interior Department's proposals.

- Under TSCA, submitted data to the Interagency Testing Committee on three fuel classes—unleaded gasoline, middle distillate fuels and heavy residual fuels—being considered for possible test rule designation. The committee has indefinitely deferred consideration of these fuels.

- Filed comments in response to EPA's Phase II test rule for the C₉ aromatic hydrocarbon fraction. The comments dealt with the industry's problems with EPA's tier testing approach, reporting requirements and test guidelines for certain studies. API has made steady progress in bringing about positive changes in this \$3-5 million test program.

- Submitted an information profile on clarified slurry oil (CSO) in response to EPA's request for information. Several API member companies have filed "substantial risk" notices with EPA, resulting in EPA considering the need to initiate regulatory action on CSO. This regulatory activity holds the possibility of setting a precedent for future TSCA regulation of petroleum products, and therefore will be followed carefully by API in the coming year.

- Discussed with EPA the duplicative nature of a proposed Comprehensive Assessment Information Rule (CAIR) and the resulting unnecessary burden on industry. EPA has delayed the regulatory timetable and apparently intends to limit future plans for generic chemical reporting.

- In testimony before the Occupational Safety and Health Administration (OSHA), indicated that OSHA overestimated health risks in proposing a rule to lower the level of permissible occupational exposure to benzene. OSHA has recognized that industry programs provide a protective work environment, but still finds significant residual risk. Work is continuing on this issue.

- Have continued to provide data to EPA that support the use of the vehicle onboard refueling canister to control automobile emissions. EPA staff appears to agree that the onboard system is feasible and cost-effective compared with other options. API work has also led several states to defer requirements for "Stage II" systems.

- API commented on EPA's technical documents covering health and welfare effects of ozone. These documents will be used to support EPA's planned revision of the standard. API's comments pointed out weaknesses in the scientific data and conclusions that suggest health effects at levels lower than the existing standard.

Future Efforts

In the future, operating with reduced resources, the department will concentrate on several issues that could have a substantial economic impact on the indus-

try. These issues include continued implementation of RCRA and TSCA, regulation of motor gasoline and benzene in air and water, possible lowering of the ozone standard, post-1987 non-attainment policies, state air toxic programs and new initiatives flowing from the reauthorization of CERCLA.

Under the 1984 RCRA amendments, many current industry practices—such as land disposal of waste—will be automatically banned unless EPA acts affirmatively. This situation, which could impose billions of dollars in additional costs on industry, places a substantial burden on API to work to prevent automatic bans.

While TSCA has so far dealt primarily with information gathering and chemical testing, regulatory actions will likely increase. Components of petroleum products may be the subject of these rules, which can range from labeling to reformulation of products.

Further regulation of motor gasoline and refueling is likely—intended either to control benzene or to further control hydrocarbons and help attain the ozone air quality standard. A reduction in the federal ozone standard—which is under review—could increase industry control costs by billions of dollars. Both state and federal agencies are expected to continue the pressure to reduce benzene emissions from mobile and stationary sources.

On the state level, California and other states are implementing air toxic programs designed to control benzene and other substances. California's recent action indicates that it may require reduction or removal of benzene from motor fuel, and other states could follow suit. In some states, benzene regulations have set up extremely stringent standards for cleanup of contaminated groundwater and soil.

CERCLA reauthorization includes several programs—cleanup standards, community "right-to-know," settlement agreements and judicial provisions—that could also lead to many significant regulatory initiatives over the next few years.

Health and Environmental Sciences

API has maintained an exceptional reputation for high quality research throughout the scientific community. During the past year, the Health and Environmental Sciences Department has continued to provide high quality research on the specific issues facing the petroleum industry. This research is essential to respond effectively to the growing regulatory initiatives by fed-

eral and state agencies and to the concerns of Congress and special interest groups.

Complex health and environment issues require a carefully integrated research program. To carry out this program, the department comprises three groups: Environmental Science and Technology; Toxicology; and Human Health. These groups provide other API departments and member companies with the information they need to develop solidly based health and environmental policies and practices.

The strongest measure of credibility in the scientific community is published, peer-reviewed research, and API was well represented during the past year with more than 35 publications. Perhaps the best example of API's reputation in regulatory circles is the peer review work performed this year at EPA's request on the agency's Complex Effluent Testing Program and Offshore and Coastal Dispersion Model.

While the current economic state of the industry requires austerity, regulatory agencies are requesting growing amounts of complex information to make regulatory decisions. Thus, the department is cutting back on areas of declining importance and emphasizing activities that respond directly to regulatory concerns. Through cutbacks, the department has reduced the research budget by over \$1 million this year, including a \$600,000 savings from cancellation of shale oil toxicology research.

Over the past year, the department's major activities included the following:

- Provided EPA with extensive data showing that vehicle "onboard" canisters are a more cost-effective means of controlling refueling and evaporative emissions than are "Stage II" service station controls.
- Developed quantitative exposure and risk assessments because of growing reliance by EPA and OSHA on human health risk data. For example, API responded to EPA concerns about human health risk from gasoline vapors by conducting a state-of-the-art epidemiology study of downstream gasoline workers.
- Provided data and technical support for API testimony on OSHA occupational benzene standard.
- Helped the Health and Environmental Affairs Department design and implement an EPA-required toxicity testing program for C₉ petroleum fractions.

Other highlights of research on the major issues now being emphasized include:

Gasoline. Studies are evaluating the mechanisms of

toxicity of gasoline vapors on the male rat kidney to determine whether the rat is an appropriate model for human risk assessment. Studies on vehicle hydrocarbon emissions have provided data that convinced EPA to modify its nationwide emissions model and vehicle test procedures.

Benzene. Research is underway to determine the contribution of indoor non-industrial exposure to overall population exposure.

Outer continental shelf. Five major studies have supported API's position that current disposal practices cause no adverse effects on air and water.

Waste management. Study of and comments on EPA's hazardous waste characterization process under RCRA helped lead to favorable revisions of EPA's proposal. Studies are underway to evaluate alternatives for treating refinery wastes in view of anticipated EPA regulation of land disposal.

Groundwater. Research has focused on underground tank leaks. The industry has already applied the results in cleaning up leaks and in negotiating with state and local governments. For example, an engineering cost model showed that a stringent Florida proposal for cleanup of benzene was neither attainable nor cost-effective with conventional technologies.

Air quality. Research has demonstrated that sensitive sub-populations do not suffer ill effects at the current ozone air quality standard. These data can help prevent a lowering of the standard.

TSCA. A large number of animal studies on the acute and chronic toxicology of refinery streams have shown that most streams have low toxic potential. These results will be invaluable in responding to growing regulatory initiatives for product labeling and hazard communication under TSCA.

Future Efforts

In the coming year, the department—under a reduced budget—will continue to produce high quality research. Efforts will include:

- emphasis on underground leak detection and cleanup, evaluation of human health and environmental impacts of hydrocarbons in groundwater, and quantitative risk assessment;
- helping member companies manage industry and government-mandated research; and
- performing in-depth studies on critical regulatory issues, such as proposals to lower gasoline volatility.