

Heed the Call:

By Tina Caparella

“It’s been a long time comin’,” as Crosby, Stills, and Nash crooned in the late 1960s, and biodiesel has been evolving for a long, long time. *Render* first enlightened readers on this alternative fuel in the October 1992 issue, reporting that “renderers could be in the automotive fuel business.” But as we head into a new decade, the question remains if renderers, and the biodiesel industry itself, will continue to be in the alternative fuel business.

Back in 1992, senior officials of the U.S. Department of Agriculture (USDA) and Environmental Protection Agency (EPA) indicated at a biodiesel pilot plant tour in Kansas City, MO, their “firm support of an active national effort to make biodiesel fuel a commercial reality.” Over the years, various government programs have provided grants, loans, and other incentives to encourage biodiesel production and its use in government and commercial fleets, and in the private sector. One such incentive has been the biodiesel tax credit, first passed by Congress in 2004 and since extended twice, most recently as part of the Emergency Economic Stabilization Act of 2008. Biodiesel produced from virgin feedstocks such as soybean oil and non-virgin feedstocks such as yellow grease and animal fats qualifies for a \$1.00 per gallon excise tax credit. Many in the biodiesel industry acknowledge that the tax credit has played a critical role in propelling the U.S. biodiesel industry to commercial scale production. Since the credit was first allowed,

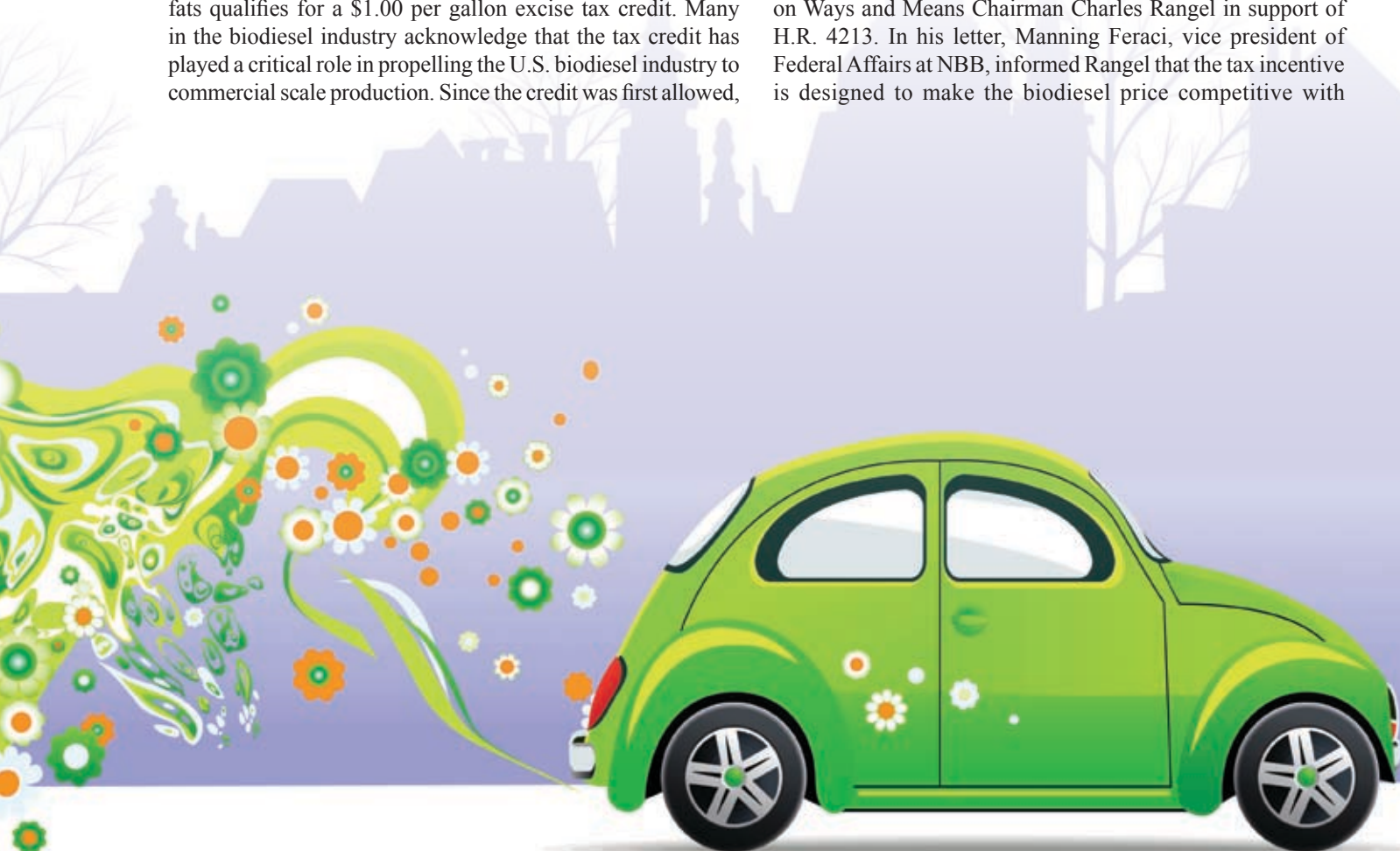
annual biodiesel production has gone from 25 million gallons in 2004 to nearly 700 million gallons in 2008.

But the tax credit expired on December 31, 2009, despite valiant efforts by the biodiesel, rendering, and other industries to not let that happen. The credit extension was included in House of Representatives (H.R.) 4213, the Tax Extenders Act of 2009, as was an extension of the alternative fuel mixture credit, which provides a 50-cent per gallon income tax refund for using animal fats as fuel in boilers. But the health care debate at the end of the year took the Senate’s attention away from other matters and thus the tax credits were allowed to expire.

So now what?

Continuing the Fight

Congress was due to return to Capitol Hill about the time this issue was wrapping up to go to press. When they do, the affected industries will continue to fight the battle of getting the tax credits extended until there is success. In early December, the National Biodiesel Board (NBB) sent a letter, economic impact report, and background paper to House Committee on Ways and Means Chairman Charles Rangel in support of H.R. 4213. In his letter, Manning Feraci, vice president of Federal Affairs at NBB, informed Rangel that the tax incentive is designed to make the biodiesel price competitive with



Congress, Extend Those Biodiesel Tax Credits!

conventional diesel fuel, and is structured in a manner that allows the value of the incentive to be recognized immediately in the market price of biodiesel.

One of NBB's pleas for the tax extension stems from the current global economic crisis that has hit the biodiesel industry hard. Established plants and those under construction have had difficulty accessing operating capital and obtaining loans to fund expansions or complete newly built plants. Volatility in commodity markets and reduced demand for biodiesel in both domestic and global markets have made it difficult for producers to sell fuel. Prohibitively high tariffs put in place early in 2009 by the European Union on U.S. biodiesel imports cut off a large export market, further bringing down the growing industry. And uncertainty in federal policy that Feraci states is vital to the industry's survival, which includes the EPA's delayed expanded renewable fuels standard, "is sending inconsistent signals to the marketplace and undermining investor confidence in the industry." NBB estimates 29,000 jobs were lost in the biodiesel industry last year and production, at 475 million gallons, was 31 percent below the 691 gallons sold in 2008 due to these factors.

The National Association of Truck Stop Owners (NATSO) also urged Senate leaders to quickly extend the tax credit before it expired to ensure an affordable biodiesel supply for the nation's 3.5 million truck drivers and to secure the environmental investments of the nation's truck stops.

"Our members want to support green initiatives," NATSO President and Chief Executive Officer Lisa Mullings said. "But they are concerned that if they make the investment in biodiesel fueling infrastructure and the tax credit isn't renewed, they won't be able to sell the biodiesel because of the price disparity between biodiesel and other fuels. We would like to see the tax credit extended so that fuel retailers will be able to make these investments."

Despite the doom and gloom, industry representatives continue to ensure lawmakers are aware of biodiesel's vast benefits economically, environmentally, and to the nation's energy security. NBB reports that the U.S. biodiesel industry supported 23,000 jobs in all sectors of the economy in 2009, added \$4.1 billion to the U.S. gross domestic product (GDP), and generated \$445 million in tax revenue to the federal treasury and \$383 million to state and local governments. As shown in Table 1, the biodiesel industry spent about \$1.3 billion in raw materials, goods, and services to produce 475 million gallons of biodiesel that displaced 26.9 million barrels of petroleum with a clean-burning, efficient fuel.

Optimism remains high that when Congress returns, the tax credit will be extended, perhaps retroactively to January 1, 2010. There is no opposition in Congress to the credit; it's simply a matter of finding a suitable vehicle to attach it to for passage and making it a priority. USDA Agriculture Secretary

Tom Vilsack told the Iowa Radio News Network he is confident the credit will be extended when Congress returns and hopes congressional leaders will address the issue expeditiously so as to prevent any significant disruption in the market.

Some in Congress are trying to make it a priority. Prior to adjourning for the year, Senate Finance Committee Chairman Max Baucus and Ranking Member Chuck Grassley presented a colloquy about the importance of passing the tax incentive for the biodiesel industry. In the letter, Baucus said it is his intention that the Senate take up legislation to extend the tax credits as quickly as possible. Grassley added that the tax provisions should be made retroactively, pointing out that "support in Congress for extending the biodiesel tax credit is robust, bipartisan, and bicameral" and that it was not extended prior to January 1, 2010, solely due to issues unrelated to the merits of the biodiesel tax credit.

RFS2 Due

Another government program that has the biodiesel industry in limbo is EPA's expanded renewable fuel standard, known as RFS2. In late May 2009, EPA released a proposed rule to outline its strategy for increasing the supply of renewable fuels, poised to reach 36 billion gallons by 2022, as mandated by the Energy Independence and Security Act of 2007. RFS2 requires the use of 500 million gallons of biomass-based diesel

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Table 1. Economic Contribution of the U.S. Biodiesel Industry, 2009 (million dollars)

Industry	Spending	Impact		
		GDP	Earnings	Number of Jobs
<i>Annual Operations</i>				
Feedstocks (soybean oil and other fats)	\$1,106.2	\$2,306.8	\$818.0	19,686
Industrial chemicals	129.8	234.5	93.1	1,743
Electric, natural gas, water	35.6	52.8	22.8	410
Maintenance and repair	14.3	20.5	13.6	342
Business services	25.9	39.8	26.2	541
Transportation	2.1	3.5	1.8	42
Earnings paid to households	14.4	13.1	6.8	172
Subtotal	\$1,328.3	\$2,670.9	\$982.3	22,935
<i>Plus Value of Biodiesel Output</i>				
Biodiesel		\$1,434.5	\$14.4	
Co-products (glycerin)		12.8		
Total Impact		\$4,118.3	\$996.7	22,935

Source: Urbanchuk, John M. 2009. Economic Impact of Eliminating the Biodiesel Tax Credit (report for NBB), p. 7

in 2009, increasing gradually to one billion gallons by 2012. From 2012 to 2022, a minimum of one billion gallons must be used domestically, with EPA having the authority to increase the minimum volume requirement.

Under the proposal, some renewable fuels must achieve greenhouse gas (GHG) reductions compared to the gasoline and diesel fuels they displace. The thresholds would be 20 percent less GHGs for renewable fuels produced from new facilities, 50 percent less for biomass-based diesel and advanced biofuels (i.e., biodiesel), and 60 percent less for cellulosic biofuels.

EPA has analyzed the life cycle GHG impacts of the range of biofuels currently expected to contribute significantly to meeting the volume mandates through 2022. According to the agency's draft life cycle GHG emission reduction results, soy-based biodiesel, at a 22 percent discount rate, would not meet the 50 percent reduction threshold, while waste grease biodiesel, at an 80 percent discount, would. Animal fat was not listed in the draft results.

There were two comment periods on the RFS2 proposal, the second one concluding at the end of September 2009, giving the biodiesel industry opportunity to voice its concern over EPA's draft life cycle analysis. NBB commented that EPA's GHG methodology relied on outdated data that artificially penalizes U.S. biodiesel; EPA should not include international indirect land use change in its GHG emissions calculations;

Biofuels Demand to Remain High

According to a new analysis by Hart Energy Publishing, LP, in Houston, TX, global use of biofuels is expected to more than double from 2009 to 2015, despite a number of key issues such as land use and competition for feedstock supplies for traditional food and feed uses. Leading the expansion is the United States with a growth of total biofuels use of more than 35 percent. Brazil will grow domestic supplies by 30 percent and more than double export volume. Indonesia and Malaysia will more than double production of palm oil biodiesel, while Germany will remain the largest producer of biofuels in Europe.

Hart expects major new contributors to the growth of global biofuels through 2015 to include Indonesia, France, China, India, Thailand, Colombia, Malaysia, the Philippines, and Argentina. Palm oil biodiesel and rapeseed biodiesel from Europe will continue to be the dominant biofuels produced. However, Hart projects commercial production and use of next-generation biofuels to remain behind expectations.

The U.S. Energy Information Administration (EIA) in Washington, DC, is predicting moderate energy consumption growth through 2035, with greater use of renewable fuels. EIA states that by 2035, fossil fuel share of total U.S. energy consumption will fall from 84 percent to 78 percent, with the shift coming from renewable fuels. **R**

and excluding soy oil from biodiesel production will not allow the industry to meet the goals of the RFS2.

Word at press time was that EPA was expected to announce RFS2 rules by the end of January. But until the agency does release its rule and Congress extends the tax credits, the biodiesel industry is in a state of suspension and uncertainty. Multiple plants ceased production at the beginning of the year while others are processing only to meet current contracts. A few biodiesel producers are processing and selling as though the tax credit will be passed and made retroactive, while others are selling only 100 percent biodiesel. Renderers report that most biodiesel customers have ceased purchasing fats and oils for biodiesel production.

Extension of the tax credit is also imperative to the rendering industry, which has enjoyed the expansion of this new market. Over the past year, the biodiesel industry has continued to increase its usage of animal fats and recycled cooking oils as feedstocks. As reported in the December 2009 issue of *Render*, \$350 million of rendered products were used by biodiesel producers in 2008. In 2009, that number is likely to be higher as use continued to escalate, with nearly 30 percent of all feedstocks used in biodiesel production being rendered fats and oils. One reason for the appeal is the lower price for rendered products, while another attraction as the RFS2 works its way to becoming finalized is the proven sustainability of rendered fats and oils, reducing GHG emissions by 88 percent.

Alternative Fuel Mixture Credit

While renderers are eager to see the tax credit extended so their fats and oils will continue to be used in biodiesel production, perhaps more important is the expiration of the alternative fuel mixture credit. This is the 50-cent per gallon income tax credit for using recycled fats and oils as a fuel in boilers, which also expired December 31, 2009. Many renderers were using this credit to support the use of animal fat in their own production equipment, which helps use up excess inventories and keep fat prices stable. Some renderers have also been able to sell their fats and oils as boiler fuel because of the tax credit, which makes rendered products competitive with industrial fuel oils.

Another benefit of using animal fats and recycled cooking oils as boiler fuel is their reduction in GHG emissions. As reported in "Uproar over EPA's Finding that Greenhouse Gases Endanger Public Health" on page 21, EPA's new GHG emissions reporting system that went into effect January 1, 2010, requires facilities that emit 25,000 metric tons or more of carbon dioxide equivalent per year to collect data on GHG emissions. Beginning in 2011, the largest emitting facilities will be required to report their emissions and perhaps even incorporate best available methods for controlling GHGs when they construct or expand their facilities.

Again, there doesn't appear to be any obvious opposition to this tax credit; however, there is an issue related to "black liquor" being used by the paper industry. An action committee comprised of multiple industry organizations, including the National Renderers Association, is working on getting this tax credit extended, however, optimism at this time is not as high as with the biodiesel tax credit extension.

Although the New Year is still young, the issues currently facing the biodiesel industry may make it long, long year. **R**