April 15, 2015

The Honorable Dean Heller
Senate Committee on Finance
Co-Chair, Tax Reform Working Group on
Community Development and Infrastructure
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Michael Bennet
Senate Committee on Finance
Co-Chair, Tax Reform Working Group on
Community Development and Infrastructure
219 Dirksen Senate Office Building
Washington, DC 20510

RE: Suggestions from Imperium Renewables and Renewable Biofuels for a Tax Credit for Biodiesel

Dear Senator Heller and Senator Bennet:

We are writing today to urge that the Community Development & Infrastructure Tax Working Group, which you co-chair, recommend continued support for America's domestic biodiesel industry. Specifically, we are asking the Congress to reinstate the recently expired biodiesel blender's tax credit, and to convert this credit to a producer's tax credit. Converting this credit to a producer's credit would save the government money and incentivize domestic infrastructure development and jobs.

Biodiesel is a renewable, low-carbon diesel replacement. This advanced biofuel can be used in existing diesel engines without modification, and in any blend with petroleum diesel. Biodiesel that qualifies under the federal Renewable Fuel Program (RFS2) is produced from approved feedstocks, and must meet strict ASTM fuel specifications.

As the two largest independent biodiesel producers in the United States, we know that enactment of a multi-year biodiesel producer's tax credit would provide incentives for domestic manufacturers, and would thereby create stability in the biodiesel market, facilitate capital investments, strengthen job creation in the U.S., and increase domestic biodiesel production. Our two companies alone have a combined annual name-plate biodiesel production capacity of almost 300 million gallons, in both Texas and the State of Washington.

As early movers in the industry, we have weathered the regulatory cycles and outside pressures as this industry continues to mature. Throughout this process, both our firms have reinvested money to further enhance our production capabilities, provide local jobs, and enhance key critical infrastructure necessary to continue the success of this program. In addition, we have invested in research and development for the next generation of advanced biofuels.

In a practical sense, the U.S. biodiesel industry is only a decade old. Virtually all of our infrastructure investments have occurred within the last five to ten years. As such, much of the capital for those investments has yet to be repaid. Accordingly, each gallon of biodiesel produced carries some of the cost of retiring that investment debt. This stands in marked contrast to the more than a century-old incumbent petroleum refining industry that has built only one new refinery since 1977. The preponderance of their infrastructure investment was recovered several-fold decades ago.

Reinstituting and converting the biodiesel tax credit in the near term will help bolster the nascent biodiesel industry, allow it to continue to grow, and will encourage continued investment in expanded infrastructure, production capacity, and the development of next generation fuels.

The blender's tax credit, when coupled with the EPA's RFS2 renewable volumetric obligations (RVOs), has helped to create a domestic biodiesel industry that supported more than 60,000 jobs in 2014, adding nearly $15 billion to U.S. GDP, and creating billions in household income, while helping revitalize rural farm communities all across the nation. As domestic producers, we want to continue our economic contributions, but face increasing pressure from foreign imports.

Over the past four years, volumes of imported biodiesel qualifying for the RFS have grown dramatically. In 2011, EPA reported 44.4 million gallons of imported biodiesel, and for 2012, qualifying imports increased to 96.8 million gallons. EPA reports a significant uptick in imports for subsequent years – the 2014 total hit over 325 million gallons. Additional volumes are imported that do not qualify for meeting the volumetric requirements of the obligated parties under the RFS2, but do qualify for the blender's credit.

Two recent actions will ensure that imported biodiesel volumes will continue to rise. In June of 2013, the European Union imposed restrictions that made European markets essentially economically unavailable to both Argentine and Southeast Asian sources of biodiesel. Unfortunately, subsequently EPA went the opposite direction. In January 2015, EPA granted the Argentine biodiesel industry a pathway that allows U.S. blenders to use Argentine soy-based biodiesel to meet the annual volume requirements under the RFS2.

Industry analysts and U.S. government sources have projected that volumes of both soy-based imports from Argentina and palm-based imports from Southeast Asia will continue to ramp up significantly in 2015 and beyond. Some analysts predicted annual volumes would rise to as high as 600 million gallons. European producers are also eyeing the US market. Currently, imported volumes of Argentinian biodiesel are down significantly from volumes reported at the end of 2014. However, the lack of RVOs for biodiesel for 2014 and 2015, the expiration of the blender's credit at the end of 2014, and the current lower price for petroleum diesel are all responsible for this drop in imports. Once any of these factors change, imports will again begin to rise. The Congress should pursue tax policies that support the domestic biodiesel industry for the long-term, regardless of price fluctuations in the price of petroleum diesel.

Bipartisan legislation was reintroduced in the 113th Congress to make changes to the biodiesel tax credit which would have significant scoring and policy benefits. The bill, spearheaded by Senators Grassley and Cantwell, would have converted the "Blender's Credit" to a "Producer's Credit," transferring eligibility for the $1.00 tax credit from the blender to the **domestic** producer of eligible biodiesel fuel. These members currently are preparing to introduce an updated version of the same legislation.

If that legislation were enacted, foreign-produced biodiesel would no longer be eligible for the credit. It is our understanding that such a credit is WTO compliant, since nations can offer incentives to further domestic manufacturing and the build-out of the infrastructure to support it. Several countries in Asia and South America offer similar benefits designed to incent their domestic manufacturers and attendant job creation. With a reformed tax credit, the Congress can re-balance federal policy incentives toward domestic producers, as was the original intent of the tax credit and the RFS. Conversion to a producer's credit is supported by our trade association, the National Biodiesel Board, which has also submitted comments to the Working Group.

We respectfully request that the Congress enact a multi-year biodiesel producer's tax credit which will provide incentives for domestic manufacturers, thereby creating stability in the biodiesel market, facilitating capital investments, strengthening job creation in the U.S., and increasing domestic production. This shift to a producer's credit could provide major savings over five years, perhaps as much as $1 billion, when compared with extending the current blender's credit.

We appreciate your leadership of the Community Development & Infrastructure Tax Working Group, and urge your support for a biodiesel production tax credit. If you have any questions concerning this request, we hope you will contact our representative in Washington, Bob Van Heuvelen, at 202-534-4920 or bob@vhstrategies.com.

Sincerely,

John Plaza
CEO, Imperium Renewables

Jonathan Phillips
COO, Renewable Biofuels Inc.

cc: The Honorable Orrin Hatch, Chairman of the Senate Committee on Finance
The Honorable Ron Wyden, Ranking Member of the Senate Committee on Finance