

Blenders Tax Credit Is Good for Jobs, But the Cost Is High

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WE STARTED THE NEW YEAR WITH CONGRESS

wrangling over the budget and, finally, passing legislation to avoid the so-called “fiscal cliff.” As we all know, that would have triggered automatic tax increases and spending cuts that would have kicked in for 2013.

We were told there would be deep budget cuts, and that some government programs would have to be eliminated. So it was a little surprising to see most of the clean energy tax credits were revived. Among them, lawmakers reinstated the \$1 biodiesel blender tax incentive, retroactive for 2012 through the end of 2013.

With a price tag of over \$2 billion, you may be wondering how the tax credit will benefit our economy. You really have to be familiar with EPA’s Renewable Fuel Standard (RFS), and its relationship with Brazilian ethanol to get a better picture.

RFS MANDATES

The RFS sets annual minimum volumes in four categories of biofuels: cellulosic, biomass-based diesel, undifferentiated advanced, and renewables.

The 2013 RFS is expected to require the blending of a minimum of 2.75 billion gallons from the advanced biofuels category. From that total, at least 1.28 billion gallons has to be biodiesel.

The balance of gallons requirement is referred to as undifferentiated biofuel. This requirement can be met by blending either biodiesel, cellulosic ethanol (which is still not available), or Brazilian ethanol.

Biodiesel is the first and only EPA-designated advanced biofuel that is produced on a commercial scale across the U.S. That means the EPA has determined that burning biodiesel reduces greenhouse gas (GHG) emissions by more than 50 percent when compared with petroleum diesel.

Brazilian (anhydrous) ethanol is produced from sugarcane, and its lower greenhouse gas rating qualifies it as an advanced biofuel according to RFS.

Our domestic ethanol made from corn has a less favorable greenhouse gas reduction rating. It only qualifies as a renewable biofuel, and therefore, cannot be used to fulfill the advanced biofuel mandate. In fact, the RFS does not mandate volumes of corn ethanol in renewables. Rather, it mandates minimum volumes of renewables. Corn ethanol happens to be the cheapest alternative for fulfilling that component of the mandate.

IMPORTING BRAZILIAN ETHANOL

Often misrepresented, Brazilian ethanol is not cheaper than our domestically produced corn ethanol. Actually, they’re both priced about the same, but freight adds about 20 cents to the cost of Brazilian imports, making it more expensive.

The U.S. and Brazil produce about 90 percent of all the ethanol in the world, so it makes sense that virtually all of our ethanol imports come from Brazil. The U.S. started importing Brazilian ethanol back in 2006 to replace MTBE as an oxygenate in gasoline.

THE BLENDER’S CREDIT

The revived \$1 per gallon biodiesel tax credit could flip how obligated parties choose to comply with the 2013 RFS. Currently, blending Brazilian ethanol with gasoline is the cheapest blending alternative for obligated parties to meet their advanced biofuels requirement.

For obligated parties, meeting the requirements is a simple economic decision. It costs less to blend Brazilian ethanol with gasoline than it costs to blend domestic biodiesel with diesel fuel. The tax credit narrows the difference in price between the blends, but biodiesel is still about 25 cents more expensive.

Obligated parties were expected to import about 830 million gallons this year to meet the RFS requirement. If so, that essentially limits domestic biodiesel production to 1.28 billion gallons, and domestic ethanol to 13.17 billion gallons (assuming 700 million gallons of export).

The tax credit could help swing the economic advantage toward domestic biodiesel away from Brazilian ethanol in meeting the undifferentiated biofuels component of the RFS.

In 2013, Brazilian imports could dramatically decrease, biodiesel production could increase up to 1.83 billion gallons, and domestic ethanol production could reach 14 billion gallons.

RETURN ON INVESTMENT

A recent study commissioned by the National Biodiesel Board (NBB) found that the biodiesel industry would support some 112,078 jobs nationally with the tax credit in place in 2013, versus 81,977 jobs without it. Additionally, the return of the tax incentive is projected to increase household income by some \$1.6 billion while supporting an additional \$3.1 billion in GDP.

IS THIS A GOOD DEAL?

Maybe not. The jobs part sounds great, but even with the dollar credit there’s no guarantee that the industry will get the biodiesel prices where they need to be. Brazilian ethanol prices could drop too.

Similar to the corn price increases attributed to domestic ethanol production, higher soybean yields needed for the increase in biodiesel production will most likely trigger rising prices for vegetable oil and many other food products.

With all of the things this country needs, I have to agree with folks who say this is crazy. RFS volumes are mandated, so why offer the tax credit? ☒