Established by Congress, the RFS requires EPA to set annual volume requirements for four categories of biofuels. The final rule considered more than 670,000 public comments and relied on the latest, most accurate data available. EPA finalized 2014 and 2015 volumes at levels that reflect the actual amount of domestic biofuel used in those years, and volumes for 2016 (and 2017 for biomass-based diesel) that represent significant growth over historical levels.

While EPA’s decision is a step in the right direction, both the rendering and biofuels industries supported slightly higher RFS levels to help continue growing significant demand for biodiesel and renewable diesel, both of which use rendered fats and oils as feedstocks. Renderers supply 22 percent of all biodiesel feedstock.

EPA’s decision culminated over three years of work by the National Renderers Association (NRA) and others in the biofuel sector to encourage EPA to increase RFS levels. NRA submitted regulatory comments twice to EPA, advocated on Capitol Hill during its congressional fly-ins, directly lobbied Congress, and coordinated closely with the National Biodiesel Board (NBB). EPA increased the RFS by over two billion gallons from its original proposal over the four-year period.

**Tax Credits Extended**

The second gift the industry received at the close of 2015 was the passage of the alternative fuel tax credits that had expired at the end of 2014. A $1.1-trillion spending bill signed by President Barack Obama in mid-December retroactively extended the $1-per-gallon blender’s tax credit for biodiesel and renewable diesel and the $0.50-per-gallon alternative fuel mixture credit from January 1, 2015, to December 31, 2016. NRA supported the two-year measure and will continue to work toward making these tax credits permanent along with the biodiesel industry. There is also a push by biodiesel producers to restructure the blender’s tax credit to a producer’s credit, a goal that NBB will work toward this year.

**The Challenges Ahead**

Many positive factors have kept the advanced biofuel industry moving forward. Market opportunity is broad for biomass-based diesel and there is ample domestic production infrastructure in place. In 2014, the United States led the world in biodiesel production, followed by Germany, Brazil, Indonesia, and Argentina. The latest figures from the US Department of Energy show worldwide biodiesel production grew about 13 percent from 2013 to 2014.

State and local policy supportive of biomass-based diesel remains generally positive. For example, New York City
currently has a two percent biodiesel blend requirement for all heating oil sold and higher usage requirements are under consideration. In addition, Minnesota has a requirement that all diesel fuel be blended with five percent biodiesel year-round and 10 percent in the summer months. Also, California and Oregon are moving forward with their low carbon fuel standard (LCFS) programs, although carbon intensity has been adjusted to rebalance vegetable oils with animal fats. This will lower some vegetable oil carbon intensity values while increasing some animal and waste fat values, and should have vegetable oils playing a larger role in LCFS compliance than past policy would have suggested. Moreover, despite court confirmation of LCFS policy, many expect lawsuits to persist as similar programs spread throughout the country. This clouds the regulatory outlook as this sort of program is developed at the state level.

The advanced biofuel industry is impacted by the falling crude oil prices, which pressures biofuel market prices. With oil prices at the lowest since 2003, the energy market is weak and there is ample supply. However, diesel demand is projected to increase four percent next year so demand and support for biomass-based diesel is encouraging. That said, periods of mild weather this winter have temporarily decreased demand in the Northeast heating oil market. Diesel prices are following a similar trend line as crude oil.

The RFS has been set for biomass-based diesel until 2017, with EPA projecting to propose volumes for 2018 by this summer. While indicators are that the renewable fuels industry will ramp up this year thanks to the set RFS volumes and extended tax credits, there is still much work ahead to ensure opportunities in 2017 and beyond.

A big challenge for US biodiesel producers this year will be imports, which are projected to double as suppliers in Argentina and elsewhere boost volumes after the US government issued clearer rules for blending tax credits and volumes, according to Argus Media Ltd., a provider of data on energy and related commodity markets. Already facing pressure from partially subsidized imports, US producers will be further squeezed in 2016 from even cheaper foreign product entering the market. The recent devaluation of the Argentine peso by 25 percent will also promote biodiesel’s competitiveness on US shores. Argentine supply already benefits from its own government subsidies.

Net biodiesel imports will continue to grow relative to domestic supply moving forward, with total imports expected to increase 68 percent from 429.2 million gallons in 2015 to 720.5 million gallons this year, according to the Energy Information Administration (EIA). With mandated biodiesel blending volumes set at 1.73 billion gallons in 2015 and 1.9 billion gallons for 2016 under the RFS, imports as a percentage of implied US supply are poised to increase from 25 percent last year to 38 percent this year.

Foreign suppliers will also benefit from the $1-per-gallon blender’s tax credit by extension, as prices increase to adjust for the government subsidy. The restoration of the credit will also pressure renewable identification number (RIN) prices.

The US biodiesel industry was strained by a large volume of imports in 2015 following EPA’s decision last January to approve Argentine product to qualify for biodiesel RINs under the RFS. Biodiesel imports last year were at their highest level in six years, with Argentine biodiesel accounting for nearly 50 percent of total imports. In all, imported and foreign-produced credits made up 22 percent of biodiesel RINs generated in 2015, the highest proportion since 2010.

Feedstock Outlook

Biomass-based diesel continues to be a significant and reliable source of demand for rendered fats and oils. The outlook for soybean, palm, and canola oil production is strong and may limit upside on vegetable oil pricing. Last year saw another record soybean crop with palm oil production also continuing at record levels. A record corn crop is decreasing the market price on corn, giving the animal feed industry options for cheap calories in diet formulations. A very strong US dollar is making exports of fats and oils more challenging so a downward export trend may persist. Cheap energy also limits the prices biofuel producers are able to pay for feedstock. These factors, along with ample supply of vegetable oil, could keep rendered fats under price pressure.

Uncertainty and market volatility are no strangers to the advanced biofuel industry. This has led to feedstock diversification among most producers. Biomass-based diesel is among the most tested fuel in the marketplace. ASTM International and the industry have been strategic partners in research and investments of quality standards for biodiesel. This dedication to quality has helped to ensure that biodiesel is here to stay.

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Rendering’s Piece of the Puzzle

Rendered fats and oils make up 22 percent of US biodiesel feedstocks and that should continue as biodiesel producers make as much fuel as possible to meet the RFS volumes and take advantage of tax credits. This demand should help raise currently low fat and oil prices but could also increase thefts of used cooking oil. However, the expected increase in biodiesel imports this year could keep rendered fat prices lower than they otherwise would climb had the borders been closed.

Some renderers are reporting an uptick in the use of their feedstocks in renewable diesel from large fuel and energy companies to make fuel for meeting EPA renewable fuel requirements, rather than purchasing biodiesel and blending for compliance needs. In addition, with increases in government and private fleet usage and original equipment manufacturer support of renewable diesel (see Biofuels Bulletin on page 20), this market may provide an opportunity in the challenging biofuels arena.

Outlook

So what is next in 2016? History has proven over and over again that the biodiesel industry is resilient and will keep growing in new and existing markets, utilizing multiple feedstocks, and producing quality products. Biomass-based diesel will continue to support jobs and economic development and innovation.

EIA forecasts that drivers will consume 17 percent more diesel fuel by 2023 and 26 percent more by 2040. With 44 new clean diesel car, truck, and sport utility models launched in the 2014 model year, automotive industry experts predict that consumers will have more than 58 diesel vehicle models to choose from in North America by 2017. Biomass-based diesel’s future growth looks even more promising with progress being made toward addressing climate change, such as the recent 2015 United Nations Climate Change Conference in Paris, France. The industry can help improve petroleum diesel’s greenhouse gas emissions profile as countries and local governing entities expand policy in response to this issue.

Consumer acceptance and support from partner industries like rendering will remain important for future growth of the renewable fuels industries. The biomass-based diesel industry continues to be tested and has proven it is here to stay. R