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The Honorable Kevin Brady – Chair
The Honorable Mike Thompson – Vice Chair
Energy Tax Reform Working Group
House Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Brady and Vice Chairman Thompson:

The National Biodiesel Board (NBB) is pleased to submit comments to the Energy Tax Reform Working Group regarding the impact of the biodiesel tax incentive on the continued growth and success of our industry. As background, NBB is the national trade association representing the biodiesel industry and the coordinating body for biodiesel research and development in the United States. Since 1992 when it was founded, NBB has developed into a comprehensive industry association that works with a broad range of stakeholders including industry, government and academia. NBB represents more than 250 companies with facilities and employees in nearly every state in the country. Our membership includes biodiesel producers, feedstock suppliers, marketers, distributors and other industry stakeholders.

Biodiesel is a renewable, low-carbon diesel replacement fuel made from recycled cooking oil, trap grease, animal fats and agricultural oils such as soybean, camelina and canola oil. The EPA has determined, based on the performance requirements established by the *Energy Independence and Security Act*, that domestically produced biodiesel is an "Advanced Biofuel" – meaning it reduces greenhouse gas emissions by at least 50 percent when compared to petroleum diesel. Biodiesel is the only commercial-scale fuel sold and produced across the United States to achieve this designation. The fuel meets a strict fuel specification set forth by ASTM International, the official U.S. fuel-certification organization, and it is primarily used in blends of 5 percent to 20 percent. Biodiesel does not require special fuel pumps or engine modifications. In fact, the majority of automobile manufacturers support biodiesel blends up to 20 percent in their engine warranties.

As described by the Joint Committee on Taxation in JCX 39-12, the biodiesel fuels credit is the sum of three credits: the biodiesel mixture credit of $1.00 per gallon used by the taxpayer in the production of a qualified biodiesel mixture, the biodiesel credit of $1.00 per gallon of biodiesel that is not in a mixture with diesel fuel, and the small agri-biodiesel producer credit of 10 cents per gallon for up to 15 million gallons of agri-biodiesel produced by small producers. The

credits may be taken as income tax credits and the biodiesel mixture credit may be taken as an excise tax credit. The credit is currently extended through December 31 of 2013.

History has shown that well-crafted and efficient tax incentives can be powerful policy mechanisms to achieve the nation's energy objectives and leverage private sector investment to promote the deployment and utilization of new energy resources. This is certainly the case with the tax credit for biodiesel. Losing this tax incentive would effectively amount to a tax increase on our industry. It would hamper growth and stunt investment.

In its short history, the biodiesel tax incentive has without question stimulated production. In 2004, prior to the enactment of federal tax incentives, our industry produced 25 million gallons. When the incentives were first implemented in 2005, the U.S. produced roughly 112 million gallons. Domestic production has steadily increased up to 1.1 billion gallons last year, supporting more than 60,000 jobs across the country. In many rural areas, biodiesel plants are the primary economic engine of the local economy. There are now more than 200 registered biodiesel plants.

This success should be celebrated, but it should not be taken for granted. Biodiesel remains a young and maturing industry, and it needs predictable federal tax policy to continue attracting investment, developing infrastructure and building on its recent growth and momentum. When compared to other major fuels such as gasoline, diesel and ethanol, biodiesel is at a fundamentally different stage of development.

The gasoline marketplace is approximately 140 billion gallons, the diesel pool is approximately 60 billion gallons and the ethanol marketplace is producing some 14 billion gallons. By comparison, biodiesel production stands at just under 1.1 billion gallons. Additionally, the petroleum industry has received a number of tax incentives for years; and the ethanol industry evolved for decades with a tax incentive that was enacted in 1980. In contrast, the biodiesel industry has had commercial-scale production for only about seven years. It has received its tax credit since only 2005 and has seen the credit lapse twice since then, in 2010 and 2012.

We believe the public policy benefits of continuing the tax incentive are clear, including:

- *Jobs and Economic Impact:* A recent study found that the U.S. biodiesel industry supported more than 60,000 jobs across the country in 2012, along with $3.2 billion in household income, $6.1 billion in GDP, and at least $628 million in federal, state and local tax revenues. In many rural areas of the country, biodiesel plants are the driving force of the local economy.

- *Reducing our Dependence on Foreign Oil:* Biodiesel can play a major role in expanding domestic refining capacity and reducing our reliance on foreign oil. Each gallon of biodiesel produced in the U.S. displaces an equivalent amount of petroleum diesel fuel with a clean-burning, efficient fuel.

- *Improving Air Quality and the Environment:* Biodiesel is the only EPA-designated Advanced Biofuel with commercial-scale production nationwide. According to the EPA, biodiesel reduces lifecycle greenhouse gas emissions by 57 percent to 86 percent compared to petroleum diesel. With some 4.6 billion gallons used since 2005, biodiesel has reduced lifecycle greenhouse gas emissions by 74 billion pounds – the same impact as removing 5.4 million passenger vehicles from America's roadways. Additionally, the EPA consistently cites tailpipe emissions from traditional diesel – primarily from trucking fleets and other heavy-duty vehicles – as a major national health hazard. Substituting higher amounts of biodiesel for traditional diesel fuel is the simplest, most effective way to immediately reduce emissions.

- *Feedstock Diversity:* The growth of the biodiesel industry is driving new technologies and feedstock development. The biodiesel industry has evolved significantly in recent years and now uses a wide variety of feedstocks, including soybean oil, recycled cooking oil, and animal fats. New feedstocks are being added every year, and the EPA recently approved camelina – a high-oil-content plant grown on marginal lands with low inputs – as an approved biodiesel feedstock.

- *Lowering Consumer Prices:* In recent years, with help from the biodiesel tax incentive, biodiesel could be purchased by fuel distributors at a lower price than petroleum diesel, resulting in estimated consumer savings of $120 million.

  - Michael Whitney, Love's Travel Stops/Musket Corp.: "Over the course of the past year delivered biodiesel prices have been lower than diesel prices. Accordingly, wholesale marketers of diesel have been able to offer biodiesel blends at the rack at a discount to clear diesel (diesel without biodiesel). These discounts have varied over the course of the year from as little as $0.0025 (1/4 of a cent) to as much as 4-5 cents per gallon."

  - Carlo Luri, General Manager of Bently Biofuels in Minden, Nev.: "The reason we invested in biofuels in the beginning is that we expected fuel prices to go up long term. When you have a commodity like fuel impacted by so many different things in the world, it's not just the continued escalation of prices, but price volatility. The price of fuel can jump up, but it also can come down just as fast. We have to be able to weather the upturns and the downturns. We've been able to sell biodiesel for less than petroleum for almost a year now."

In conclusion, NBB would like to emphasize that the biodiesel tax incentive has helped achieve the desired goal of increasing the domestic production and use of biodiesel, and in turn has helped the U.S. realize the energy security, economic and environmental benefits associated with displacing petroleum with domestically produced renewable fuels. These benefits, however, will be jeopardized without continued certainty in the tax code to stimulate production and growth. Thank you again for the opportunity to participate in the Tax Reform Energy Working Group process, and NBB would be pleased to serve as a technical resource on the industry as the committee moves forward with its deliberations.

Sincerely,

Anne Steckel
Vice President of Federal Affairs
National Biodiesel Board