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**Written Testimony of Anne Steckel
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Submitted to the U.S. Committee on Ways and Means
Subcommittee on Select Revenue Measures
Hearing on Framework for Evaluating Certain Expiring Tax Provisions
June 8, 2012**

Executive Summary: Biodiesel is a renewable, low-carbon diesel replacement fuel made from an increasingly diverse mix of feedstocks including agricultural oils, recycled cooking oil, and animal fats. It is the only domestically produced, commercial-scale Advanced Biofuel – as defined by the Environmental Protection Agency (EPA) – that is readily available and accepted nationwide. It meets a strict ASTM fuel specification and is used in existing diesel engines without modification.

In its short history, the biodiesel tax incentive has achieved its desired goal of stimulating U.S. biodiesel production – increasing the domestic manufacturing of a clean-burning, renewable fuel while generating jobs, reducing America’s reliance on foreign oil and improving the environment.

When the tax incentive was enacted in 2005, the U.S. produced 112 million gallons of biodiesel. In 2011, with support from the tax incentive and the RFS, the industry set a new production record of nearly 1.1 billion gallons, supporting more than 39,000 jobs across the country while generating at least \$628 million in federal, state and local tax revenues, according to a recent economic studyⁱ.

The biodiesel industry is poised to continue that momentum in 2012 so long as Congress and the Administration continue supporting strong policies such as the biodiesel tax incentive for stimulating clean, domestic energy production.

However, the industry’s recent success should not be taken for granted, and the recent expiration of the \$1 per gallon biodiesel tax incentive poses a significant threat to the industry’s continued growth. U.S. biodiesel remains a young and vulnerable industry. In fact, we know from recent history what could happen without the biodiesel tax incentive and a strong Renewable Fuel Standard (RFS). When the tax incentive lapsed in 2010, the result was predictable: Plants closed and thousands of people across the country lost work. Specifically, U.S. biodiesel production plummeted by 42 percent, resulting in the loss of nearly 8,900 jobs and a drop in household income of \$485 million.

Only in 2011, after Congress reinstated the tax incentive and the RFS was fully implemented, did the industry regain its footing and begin ramping up production again, with record-breaking success.

With the ongoing economic downturn, now is not the time to allow another industry slump. Under projected expansion by 2015, biodiesel is expected to support more than 74,000 jobs, \$4 billion in income, and some \$7.3 billion in GDP, according to the economic study.

That growth will be severely jeopardized if Congress does not extend the biodiesel tax incentive, which also applies to bio-jet and renewable diesel production.

Chairman Tiberi and Ranking Member Neal, I appreciate the opportunity to submit written testimony on behalf of the National Biodiesel Board (NBB) regarding the economic impact of the biodiesel tax incentive.

As producers of America's only commercial-scale Advanced Biofuel that's sold and produced nationwide, the U.S. biodiesel industry looks forward to working constructively with this committee to ensure that our nation's Advanced Biofuel goals are met.

NBB applauds your efforts to review expiring tax provisions to determine how these provisions measure against key metrics such as cost, effectiveness, and job creation. 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, renewable diesel and bio-jet fuel. As with every other major U.S. energy resource, effective tax policy has helped create domestic manufacturing jobs as well as significant economic and energy policy benefits.

Before the biodiesel tax incentive expired on December 31, the U.S. biodiesel industry had a record year of production in 2011, producing nearly 1.1 billion gallons and creating good-paying jobs in nearly every state in the country. This success is in part attributed to the strong federal policies in place encouraging domestic energy production. While we understand the pressures facing Congress, we believe economic conditions are simply too weak today to pull support from a growing American industry that is a rare bright spot in this struggling economy.

The recent expiration of the \$1 per gallon biodiesel tax incentive poses a significant threat to the industry's continued growth, economic impact and job creation. Now, as much as ever, the biodiesel industry needs stability and support to continue its remarkable success story, and we encourage Congress to provide a retroactive extension of the biodiesel, renewable diesel, and bio-jet tax credit.

While we understand there is an interest among some to delay processing tax extenders until it can be done within the context of broader tax reform, we are concerned that doing so would indefinitely delay an extension and continue to jeopardize the jobs, investment and economic activity generated by the U.S. biodiesel industry. Biodiesel production already has suffered since the loss of the biodiesel tax incentive nearly six months ago, and we urge Congress to act expeditiously to extend provisions such as the biodiesel tax incentive that enjoy strong bipartisan support. We would welcome the opportunity to participate in a broader discussion of U.S. tax policy, but we believe the U.S. biodiesel industry cannot wait the months and possibly years it could take for Congress to reach a consensus on comprehensive tax reform. Quickly reinstating the expired biodiesel tax incentive would provide needed certainty and protect against future disruptions and the loss of thousands of much-needed jobs.

Background and Industry Overview: Biodiesel is a renewable, low-carbon diesel replacement fuel. The EPA has determined, based on the performance requirements established by the *Energy Independence and Security Act* (EISA) (P.L. 110-140), that domestically produced biodiesel is an Advanced Biofuel under the RFS2 program. In fact, it is the only commercial-scale fuel sold and produced across the United States to achieve this designation.

Biodiesel is made from waste greases such as recycled cooking oil, animal fats and secondary-use agricultural oils, and is refined to meet a specific commercial fuel definition and specification. The fuel meets the D6751 fuel specification set forth by ASTM International, the official U.S. fuel-certification organization. Biodiesel is one of the most- and best-tested alternative fuels in the country and the only alternative fuel to meet all of the testing requirements of the 1990 amendments to the Clean Air Act. There are approximately 195 domestic and foreign biodiesel plants registered with the EPA, representing a combined production capacity in excess of 3 billion gallons.

Biodiesel is primarily marketed as a five percent (B5) blending component with conventional diesel fuel, but can be used in concentrations up to twenty percent (B20). It is distributed utilizing the existing fuel distribution infrastructure with blending occurring both at fuel terminals and “below the rack” by fuel jobbers.

Status and Background on the Biodiesel Tax Incentive: The biodiesel tax incentive was enacted in 2004 as part of the American Jobs Creation Act (P.L. 108-357) and took effect in 2005. The incentive was subsequently extended through December 31, 2008, as part of the Energy Policy Act of 2005 (P.L. 109-190). H.R. 1424, the Emergency Economic Stabilization Act of 2008 (P.L. 110-343), again extended the incentive for one year through December 31, 2009, at which time the credit expired. After being expired for all of 2010, Congress extended the tax credit through December 31, 2011 (P.L. 111-312).

It expired again on December 31, 2011, and is currently lapsed.

While the impact of this year’s expiration are just beginning to be seen, the 2010 expiration of the tax credit had a severely detrimental impact on the domestic biodiesel industry. In fact, the industry’s decline resulted in the loss of nearly 8,900 jobs and a drop in household income of \$485 million.

The biodiesel tax incentive is designed to encourage the production and use of biodiesel by making the fuel price-competitive with conventional diesel fuel. In general, current law allows taxpayers to claim the biodiesel tax incentive as either a \$1.00 per gallon general business income tax credit or as a \$1.00 per gallon blenders excise tax credit. To qualify for the biodiesel tax incentive, the fuel must by statute meet both the ASTM D6751 fuel specification and the Environmental Protection Agency’s (EPA) registration requirements under Section 211 of the Clean Air Act.

The Internal Revenue Code provides a general business income tax credit to encourage the production and use of biodiesel, renewable diesel and bio-jet fuel. The credit is the sum of three credits – the biodiesel mixture credit; the biodiesel credit; and the small agri-biodiesel producer credit. The biodiesel mixture credit provides a \$1.00 per gallon credit for each gallon of biodiesel that is blended with conventional diesel fuel. The biodiesel credit provides \$1.00 per gallon for each gallon of pure B100 biodiesel that is used as a fuel. The small agri-biodiesel producer credit is a 10 cents per gallon credit for plants with a production capacity of less than 60 million gallons per year. The credit can be claimed on the first 15 million gallons of production.

Biodiesel Public Policy Benefits: The biodiesel tax incentive has helped achieve the worthwhile policy goal of creating jobs while increasing the production and use of biodiesel in the U.S. In 2004, when the incentive was initially enacted, the U.S. produced 25 million gallons. In 2011, with the tax credit reinstated and with a strong RFS program, the industry produced nearly 1.1 billion gallons. There are compelling public policy benefits associated with the enhanced production and use of biodiesel in the U.S.

Biodiesel Reduces our Dependence on Foreign Oil: Biodiesel can play a major role in expanding domestic refining capacity and reducing our reliance on foreign oil. The 3.6 billion gallons of biodiesel produced in the U.S. since 2005 have displaced an equivalent amount of diesel fuel with a clean-burning, efficient fuel that the EPA estimates reduces lifecycle greenhouse gas emissions by as much as 86 percent compared to petroleum diesel fuel and creates 5.5 units of energy for every unit of energy that is required to produce the fuel.

Biodiesel is Good for the Environment: Biodiesel is an environmentally safe fuel, and is the most viable transportation fuel when measuring its tailpipe emissions, lifecycle carbon emissions and energy balance. Since 2005, biodiesel has reduced lifecycle greenhouse gas emissions by 48.3 billion pounds, the equivalent of removing 4.25 million passenger vehicles from America's roadways.

Biodiesel Reduces Diesel Emissions: Tailpipe emissions from traditional diesel – primarily from trucking fleets, school buses and other vehicles – are a significant health and air quality concern. In an update to its National-Scale Air Toxics Assessment earlier this year, EPA cited diesel exhaust as one of the nation's most dangerous pollutants, saying it is "among the substances that may pose the greatest risk to the U.S. population." Thousands of trucks and buses hit the road every day burning traditional diesel fuel. Substituting higher amounts of biodiesel for traditional diesel fuel is the simplest, most effective way to immediately improve emissions.

The Biodiesel Industry is Creating Jobs and Making a Positive Contribution to the Economy: NBB estimates that the U.S. biodiesel industry supported more than 39,000 jobs in 2011, in all sectors of the economy, and added more than \$3.8 billion to the nation's Gross Domestic Product (GDP).

Biodiesel is America's first advanced biofuel and when compared to gasoline, diesel and ethanol, it is at a fundamentally different stage of development and should be treated as a new fuel in the marketplace. The petroleum industry has received a number of tax incentives for many years; and the ethanol industry has been around for decades and had its tax incentive since 1980. In contrast, the biodiesel industry has had commercial-scale production for only about six years, and has had its tax credit only since 2005. 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 reached a record 1.1 billion gallons last year. Biodiesel is an up-and-coming industry and is in a far more fragile stage of development.

Conclusion: 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 if Congress does not act in a timely manner to address the immediate issue facing the industry and extend the biodiesel tax incentive.

About NBB: NBB is the national trade association representing the biodiesel industry as the coordinating body for research and development in the U.S. It was founded in 1992, and since that time, NBB has developed into a comprehensive industry association which coordinates and interacts with a broad range of cooperators including industry, government and academia. NBB's membership is made up of biodiesel producers; state, national and international feedstock organizations and feedstock processor organizations; fuel marketers and distributors; and technology providers.

Chairman Tiberi and Ranking Member Neal, I again appreciate having the opportunity to submit written testimony on this issue of significant importance to the U.S. biodiesel industry. We look forward to serving as a resource for the Committee on issues related to biofuels tax policy as the committee proceeds.

ⁱ Cardno ENTRIX June 8, 2011, Economic Impact of Removing the Biodiesel Tax Credit for 2010 and Implementation of RFS2 Targets Through 2015.