



# **Federal Policies Influencing the Development of the United States Biodiesel Industry**

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**The Energy Independence and Security Act of 2007 calls for U.S. biofuels production to reach 36 billion gallons – one third of current U.S. petroleum consumption – by 2022.**

**In 2006, biofuels production totaled just under 5 billion gallons.**

# What are the policy considerations behind this push to develop a biofuels industry?

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## **Energy Independence**

The U.S. imports approximately 60% of the crude oil it consumes, with the majority of the imported oil used to produce gasoline and diesel.

## **Global Climate Change**

The transportation sector directly accounts for ~30% of total U.S. GHG emissions. Transportation is the fastest-growing source of U.S. GHGs and the largest end-use source of CO<sub>2</sub>.

## **Economic Development**

Between 2000 and 2004, the average price of corn was \$2.37 per bushel. In 2007, corn averaged ~\$4.00 per bushel and has reached \$5.40 per bushel in the 2008 future markets.

# Why Biodiesel?

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- No substantial technology challenges
- Can be produced using diverse feedstocks (e.g., animal fats and vegetable oils, including soybeans, canola, camelina and palm)
- Can be produced in all regions of the United States
- It's renewable
- Can be transported through existing pipeline infrastructure
- Can be used as a blend with diesel in any diesel engine
- Has a better energy balance than gasoline (produces 3.25 times more energy than it consumes)
- Has a favorable carbon footprint (reduces emissions by an estimated 78.5%)

# What market challenges currently exist for the U.S. Biodiesel Industry?

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- Biodiesel is more expensive to produce than petroleum diesel
- The U.S. biodiesel industry relies heavily on soybeans as the dominant feedstock
- The U.S. market for biodiesel is still developing

# Internal Revenue Code Section 40A – Credit for Biodiesel Used as Fuel

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- Federal tax credit up to \$1.00 per gallon for biodiesel fuels (or more for eligible producers of agri-biodiesel, i.e., biodiesel derived solely from virgin oils)
  
- The biodiesel fuels credit is the sum of:
  - (1) The biodiesel mixture credit (\$0.50 per gallon or \$1.00 per gallon if agri-biodiesel), plus
  - (2) The biodiesel credit (\$0.50 per gallon or \$1.00 per gallon if agri-biodiesel), plus
  - (3) The small agri-biodiesel credit (\$0.10 per gallon), if applicable
  
- The credit expires after December 31, 2008

# 2007 Farm Bill

## Title IX – Energy

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- **Biomass Research and Development Program.** For biobased fuel research. (\$75 - \$420 million in proposed mandatory funding over five years)
- **Bioenergy Program.** Provides payments to producers to encourage purchases of eligible feedstocks for expanding production of bioenergy. (\$245 million - \$1.4 billion in proposed mandatory funding over five years)
- **Regional Biomass Crop Research.** New program to conduct biomass crop research at 10 geographically dispersed and competitively selected land-grant universities. (\$40 million in proposed mandatory funding over five years)
- **Biomass Energy Reserve.** New program to help landowners produce, harvest, store and transport energy crops. (Up to \$130 million in proposed mandatory funding over five years)

# Energy Independence and Security Act of 2007 (EISA)

## Section 202: Federal Renewable Fuel Standard

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- EISA requires an increase in renewable fuel production by requiring that 36 billion gallons of biofuels be blended with conventional fuel by 2022.
- Of this amount, 21 billion gallons must be advanced biofuels, such as biobased diesel.
- The renewable fuels standard features a specific carve-out applicable to biodiesel. The carve-out begins at 500 million gallons in 2009, 650 million in 2010, 800 million in 2011, and tops out at 1 billion gallons in 2012.
- After 2012, the EPA Administrator, in coordination with the DOE and USDA, shall determine the volume of fuel, which “shall not be less than the applicable volume ... for calendar year 2012,” meaning that 1 billion gallons per year is a floor following 2012.

# Looking Forward: Policy Challenges

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- Extension of the \$1.00 per gallon biodiesel fuels tax credit
- Expanding and Maintaining access to global markets
- Developing a diversity of domestically produced feedstocks

# Talking Points for Congress: Tax Policy

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- The biodiesel tax credit expires at the end of 2008. In order for biodiesel to be competitive with diesel and for this young industry to continue to grow, the credit needs to be extended as quickly as possible. Much needed investment capital will dry up as the expiration date approaches.
- A long-term extension of at least 5 years is needed to provide stability to the industry and allow it to continue to attract investment capital.
- Domestic biodiesel producers should be permitted to sell biodiesel in the much larger European market without being penalized.

# Talking Points for Congress: Energy Policy

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- EISA provides a dedicated renewable fuel standard (RFS) for biodiesel. This is an important policy for the biodiesel industry in that it creates a dedicated domestic market, much like the 2005 RFS did for corn ethanol.
- The biodiesel RFS requires the use of 1 billion gallons by 2012. This is too conservative. The U.S. biodiesel industry currently has a production capacity approaching 1 billion gallons per year. We need a federal policy that drives a robust market for biodiesel.
- EISA includes language that restricts where biofuel feedstocks can be grown for purposes of the RFS. Private lands not currently or historically under agricultural production do not qualify under the RFS. Congress needs to amend the definition of “renewable biomass” so that lands which are capable of growing biofuel feedstocks are eligible.

# Talking Points for Congress: Farm Bill

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- Congress is currently struggling to complete work on a five-year reauthorization of a Farm Bill. Both the Senate and House have passed Farm Bills that provide robust funding for USDA bioenergy programs. The final Farm Bill should not short-change these programs.

# Questions?

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