

Biodiesel Industry Update 7/8/20

Federal Policy

Federal Blenders Credit

- \$1/gallon credit had been expired since 31-Dec-2016
- Mar-2018, retroactively reinstated for 2017 only
- Remained expired for all of 2018 and 2019
- Reinstated December '19 retroactive for '18 and '19 and prospectively for '20, '21, '22
- Extension beyond '22 is unclear. Senator Grassley has been the most influential champion of the tax credit, and his term runs through '22 when he will be 90 years old. It is uncertain whether he will run for another term and it will be difficult to get further extensions without his strong advocacy from his prominent position as chair of the Senate Finance Committee that has jurisdiction over tax issues. He is the second most influential Senator - he has the most seniority in the US Senate (40 years) and is the elected President Pro Tem (third in line of succession to the President).

Renewable Fuel Standard - Renewable Volume Obligations

2019 RVOs

- Biomass Based Diesel (D4 RINs) 2.1 B gallons
- Non-cellulosic Advanced (D5 RINs) 0.475 B gallons
- Total D4 and D5 RVO 2.575 B gallons

2020 RVOs

- Biomass Based Diesel (D4 RINs) 2.43 B gallons
- Non-cellulosic Advanced (D5 RINs) approx. .5 B gallons
- Total D4 and D5 RVO 2.9 B gallons

2021 RVOs

- BBD (D4) 2.43 B gallons

Proposed rule for RVOs for 2021 and BBD 2022 has been completed by EPA and sent to OMB for review but has been placed on an indefinite hold by the White House (in part using COVID outbreak as excuse for missing the deadline for the proposed rule).

Small Refinery Exemptions

- Small refineries defined as "Capacity of < 75,000 BBLs/day
- Until 2016 petitions for waivers were about a dozen each year with about half granted
- Petitions and grants began ballooning in 2016 under Administrator Scott Pruitt to 39 in 2018 including Exxon, BP, and Shell
- According to Scott Irwin, this accounted for 937 M gallons of Renewable Fuel demand decline in 2018
- January 2020, Tenth Circuit Court ruled that the EPA cannot extend exemptions to refiners whose temporary exemptions had lapsed

- June '18, EPA discloses that 52 refiners filed petitions in 2020 for exemptions prior to 2019 going back retroactively as far back as 2011. These included some companies that have never filed for exemptions before. This appears to be another coordinated move by refiners to undermine the RFS. Renewable fuel industry groups are strongly opposing the granting of these “gap” SRE’s. A bipartisan group of 16 US Senators and 32 Representatives wrote to President Trump urging him to reject these petitions. On June 26 Senator Joni Ernst put a hold on Trump’s nomination to fill the Deputy Administrator position (number 2 spot) at EPA. “Until EPA tells us exactly what they plan to do with the ‘gap year’ waivers, Mr. Benevento does not have my vote,” Ernst said. “Iowa’s hardworking ethanol and biodiesel producers are sick of being yanked around by Andrew Wheeler and the EPA. Our producers need certainty; until we get that, no EPA nominee is getting my vote.”

State Policy

Iowa: Iowa extended its 3 cent state excise tax differential for blends over 10%. The program would have expired June 30th and is now extended through 2026. The state also received \$7 million in renewable infrastructure funding through the CARES Act for economic stimulus.

California: California’s Low Carbon Fuel Standard (LCFS) continues to generate significant demand for biomass-based diesel (BBD). Volumes for BBD have grown dramatically over recent years to approximately 700 million gallons and this growth trend is expected to increase. However, most of this growth is coming from renewable hydrocarbon diesel (RHD) and imports at the expense of biodiesel. LCFS policies inadvertently favor RHD even though RHD is more expensive than BD because of the way that carbon credits transact and how the margins are captured. LCFS is also stimulating dramatic new construction of RHD production facilities and expansion projects. Projects under construction are estimated to be in the range of 1 – 1.5 B gpy. California-style LCFS policies have been adopted in Oregon, Washington, and British Columbia. They are also being adopted in New England states. These policies disadvantage soybean oil in favor of recycled oils and animal fats because of flawed indirect land use assumptions. This fact, along with the trade war with China has dampened soybean oil prices. The COVID response measures, which have dramatically curtailed soybean oil use in restaurants have added to this over-supply issue, while creating an under-supply issue for recycled oils. Rendering plants have also been impacted by COVID and animal fats have been in short supply as well. The recycled oils and animal fats, which have historically been the lower cost feedstock are now at a premium because of the combination of LCFS policies and the lower supply of those feedstocks.

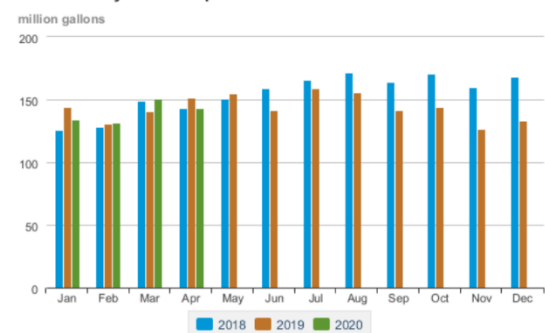
Regional: There are efforts underway to bring California-style carbon policy to the Midwest. This approach is being advocated by REG and NBB. Others have advocated shaping the coming state carbon policy debate to look more like Minnesota-style carbon policy for Midwest states. Minnesota has a state-wide B20 program that has been operating seamlessly now in its second

full year. Missouri introduced a B20 program this year and it likely would have passed but for the disruptions to the legislature due to the pandemic. The bill is moving forward and will be pursued in the 2021 session. Other states including Illinois and Ohio are considering similar measures. B20 carbon policies do not disadvantage biodiesel to RHD and do not disadvantage soybean oil to other feedstocks as CA-style LCFS policies do. B20 programs allow renewable fuels to compete based on price and performance, where biodiesel and soybean oil have the advantage.

Market dynamics

According to the EIA's biodiesel monthly survey report, biodiesel production volumes for 2020 appeared fairly well on track with 2018 and 2019. See chart. However, these numbers do not show the whole picture. It should be noted that the EIA data is based on monthly voluntary survey data from 89 plants representing 2.5 million gallons of capacity. It includes domestic biodiesel only, it does not include RHD, co-processed RHD (CRPD), or imported biodiesel. The data showing

U. S. monthly biodiesel production 2018 - 2020



production levels on track is puzzling given that a majority of those 89 plants idled or closed during 2019 because of the extended lapse of the tax credit. When the credit returned in 2020, most of those plants were over-extended on cash for working capital to buy feedstock. And their cash position would not improve until they received their '18 and '19 tax credit refunds in April and May. Anecdotally, it appears that the higher than would be expected production levels were being filling primarily by the large integrated processors who were continuing to crush beans to meet the demand for meal, and processing their surplus oil into biodiesel. The oil was in surplus because of the demand loss in the edible oil markets. Reports indicate that the processors were running at full capacity and heavily discounting their biodiesel into the diesel fuel market at prices similar to the price of soybean oil. A handful of independent producers who had forward contracts for off-take were also producing during this time.

According to EMTS data, RHD producers were producing strong during this period, and imports, primarily from Neste's Singapore plant selling into California, rose sharply.

The effects from COVID and the related impact to the economy caused oil prices to fall precipitously during Q1 and Q2. This turned margins negative. However, entering Q3, RIN prices and oil prices have shown some improvement and we expect margins to turn positive soon.