TAXPAYERS for COMMON SENSE

FACT SHEET

August 2022

Updated: Biodiesel Subsidy Bonanza

The biomass-based diesel industry has received billions of dollars in subsidies and tax credits over the last 20 years, and taxpayer costs are expected to rise in the future. In previous years when subsidies, particularly the biodiesel tax credit, were predictable and in place prospectively, market distortions resulted in the industry increasing production levels to take advantage of billions of dollars in tax breaks. Experts have also linked biodiesel subsidies to greater greenhouse gas (GHG) emissions and higher food and fuel costs.

The $3 billion-per-year biomass-based diesel tax credit was created as a temporary measure in the American Jobs Creation Act of 2004 but has been subsequently extended eight times, most recently through the end of 2022. While Congress historically granted the industry short 1- or 2-year extensions at a time, the Dec. 2019 omnibus extended the biodiesel tax credit for five years (retroactively for 2018 and 2019 and prospectively for 2020-2022). Coming in at an estimated cost of $15.2 billion, the 5-year extension of the $1/gallon biodiesel tax credit was one of the most expensive energy tax extenders in the omnibus. Congress again proposed extending this special interest tax break in the most recent version of the FY22 reconciliation bill, the Inflation Reduction Act of 2022, with an estimated cost of $3 billion/year on average.

Not only does the mature biodiesel industry benefit from a tax break, but annual consumption of the fuel is also mandated through the federal Renewable Fuel Standard (RFS). The RFS was

established in 2005 and expanded in 2007, requiring increasing levels of biofuels to be blended with U.S. gasoline and diesel by 2022. While the mandate was intended to spur the development of non-food-based biofuels, the RFS has primarily been filled with first-generation corn ethanol and soy biodiesel.

Table 1: Cost of Biodiesel Tax Credit Increased Over Time	
Years in Effect	**Cost ($, millions)**
2005 - 06	$28
2007 - 08	$168
2009	$512
2010 - 11	$1,977
2012 - 13	$2,181
2014	$1,297
2015 - 16	$2,563
2017	$3,250
2018 – 20*	$8,121
2021*	$3,092
2022*	$3,124
** Projected costs from Joint Committee on Taxation*	

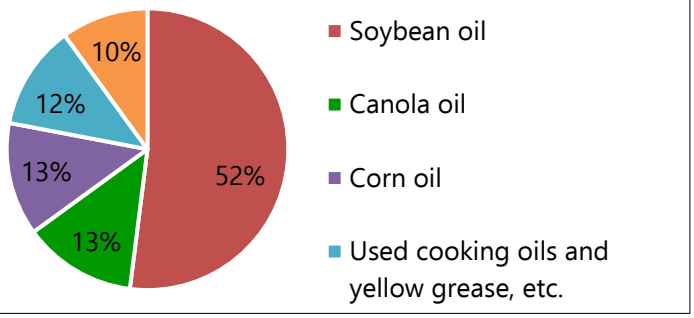
Climate Impacts

Several independent analysts – including the National Academies of Sciences (NAS) - predict that the RFS will fail to achieve its goals of promoting fuels with lower climate and environmental impacts since the mandate relies so heavily on first-generation biofuels. NAS also found that eliminating the biodiesel tax credit would actually ***benefit*** the climate.

Other Negative Impacts

Duplicative biodiesel tax credits, mandates, and other subsidies scattered throughout the U.S. Dept. of Agriculture (USDA) and Dept. of Energy (DOE) distort markets, pick winners and losers, and prop up biodiesel production at the expense of taxpayers, consumers, the environment, and other industries relying on soybeans as inputs.

Figure 1: U.S. Biodiesel Feedstocks



The Congressional Budget Office (CBO) predicted that biodiesel derived from used cooking oil, animal fats, etc. would be economical without subsidies. CBO also found that the use of biofuels increases fuel prices. Increasingly using soybeans and other vegetable oils for biodiesel and renewable diesel (which represent a majority of biodiesel feedstocks, as seen in Figure 1) distorts markets when the vegetable oil would otherwise be used for animal feed, food, etc., resulting in higher food and feed prices. The Environmental Protection Agency (EPA) recently found that,

> *"Since 2010, biodiesel and renewable diesel prices have consistently been far higher than the price of petroleum-based diesel, even after accounting for the $1 per gallon federal tax credit."*

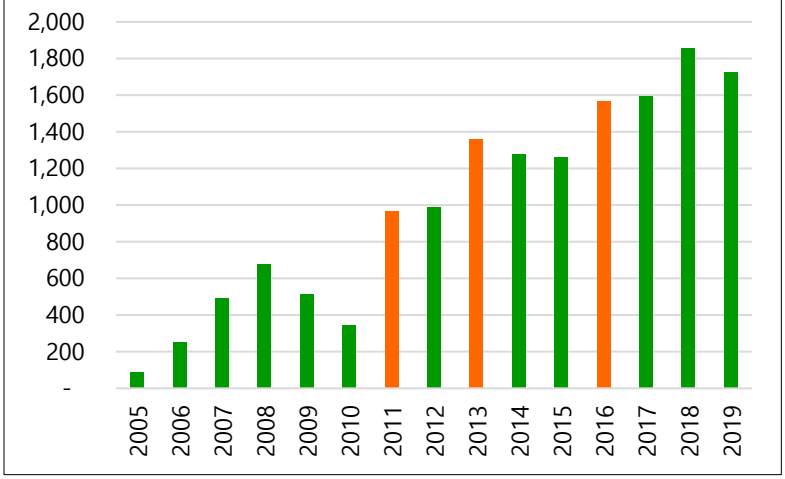
In addition, carbon-rich forests, grasslands, and wetlands have been converted to cropland production to grow more feedstocks for biofuels, such as corn and soybeans. Land conversions

have occurred both domestically and internationally, with negative climate impacts from deforestation and peatland drainage in countries like Brazil and Indonesia. Biodiesel subsidies thus work at cross purposes with other federal programs aimed at climate protection, clean water, land conservation, and more.

Distorting Markets

Annual biodiesel production is heavily influenced by the fate of the federal tax credit. In years when the tax credit was in place prospectively, the biodiesel industry responded by significantly ramping up production levels (in 2011, 2013, and 2016, in orange in Figure 2) to take advantage of the federal subsidy. This is a shining example of the government distorting the marketplace and picking winners and losers.

Figure 2: U.S. Biodiesel Production (Million Gallons)



Experts predict that soy-based renewable diesel production, which also qualifies for the federal tax credit, will increase significantly in coming years which could increase taxpayer, climate, and fuel/food costs further. The portion of US soybean oil used for biofuels has increased steadily over time (to nearly 50 percent of soybean oil production) and is expected to climb over the next decade as well.

Other Biodiesel Subsidies

While the $3 billion/year biodiesel tax credit is by far the largest subsidy for the mature industry, other subsidies are scattered throughout the federal government as well, including EPA (through the RFS), DOE, Treasury, etc. In addition, several USDA programs subsidize biodiesel, including:

- Commodity and crop insurance subsidies for corn and soybean production,
- Bioenergy Program for Advanced Biofuels (over $200 million spent on biodiesel since 2009), benefiting large agribusinesses such as Renewable Energy Group, Louis Dreyfus, Ag Processing, Archer Daniels Midland (ADM), MN Soybean Processors, and Cargill Inc.,
- Biorefinery Assistance Program ($25 million loan for a biodiesel facility), and
- Rural Energy for America Program ($9.7 million spent on biodiesel from 2010-2021).

Importantly, while the RFS mandate requires biodiesel qualifying as an "advanced biofuel" to reduce GHG emissions by more than 50 percent (although some experts question whether soy biodiesel delivers any climate benefits), other federal subsidy programs have no such strings

attached. For instance, eligibility for the biodiesel tax credit is not tied to any minimum environmental standards or GHG emission reduction thresholds. Nor do any current USDA bioenergy programs require producers to reduce climate risks in exchange for generous taxpayer support. Hence, federal bioenergy programs result in unintended consequences and additional long-term climate and environmental liabilities for taxpayers, not to mention multi-billion-dollar annual price tags.

While new clean fuel and aviation biofuel tax credits, proposed in the Inflation Reduction Act of 2022, would require GHG emission reductions beginning in 2023 and 2025, respectively, it remains to be seen whether certain biofuels derived from first generation feedstocks such as corn and soybeans would qualify for subsidies.

Conclusion

Duplicative biodiesel tax credits, biofuel mandates, and other federal bioenergy subsidies are doing more harm than good, creating additional long-term liabilities for taxpayers, and failing to meet goals Congress set forth in the 2007 energy bill. Biodiesel subsidies, particularly the $3 billion-per-year tax credit, are working at cross purposes with other federal programs, increasing climate risks, distorting markets, and picking winners and losers. For these reasons, it is time that special interest tax breaks were eliminated once and for all.

Biodiesel Tax Credit – In a Nutshell

- Tax break for biodiesel has risen to **$3 billion/year**.
- Biodiesel from waste oils and animal fats **would be economical without** a tax credit (CBO).
- GHG emissions would decline if biodiesel tax credit was **eliminated** (NAS).
- Subsidizing biodiesel **picks winners and losers and distorts markets**, resulting in higher production levels than what the market would otherwise produce (EPA).
- Most biodiesel and renewable diesel is derived from **soybean oil**, in addition to corn oil and other vegetable oils (EIA).
- Other negative impacts include **higher fuel and food prices** and conversion of carbon-rich land to biodiesel feedstocks.

For more information, visit taxpayer.net or contact Taxpayers for Common Sense at 202-546-8500.