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Biodiesel Tax Policy

Since being implemented in 2005, the biodiesel tax incentive has played a significant role in stimulating growth in the U.S. biodiesel industry, helping it become the first EPA-designated Advanced Biofuel to exceed 1 billion gallons of annual production. By making biodiesel more cost-competitive with petroleum diesel, the \$1-per-gallon tax credit creates jobs, strengthens U.S. energy security, reduces harmful and costly emissions, diversifies the fuels market, and ultimately lowers costs to the consumer. There is a clear correlation between the tax incentive and increased biodiesel production, which has grown from about 100 million gallons in 2005, when the tax incentive was first implemented, to almost 1.1 billion gallons in 2012.

However, the tax incentive has expired twice in its short history, creating significant disruptions in the industry. Additionally, the annual threat of losing the tax incentive has stunted growth, limiting biodiesel producers' access to capital and investment, and restricting their ability to expand. With only about seven years of commercial-scale production, biodiesel remains a young and maturing industry that needs stable tax policy to continue meaningful growth and momentum toward the industry goal of constituting 10 percent of the on-road U.S. diesel market by 2022. The benefits of doing so are clear:

Energy Security

Biodiesel is diversifying our fuel supplies so that we are not at the mercy of global oil markets that are heavily influenced by unstable regions of the world and global events beyond our control. Despite increased domestic oil production, consumers will remain vulnerable to highly volatile international oil prices without diversity in the fuels market. Biodiesel can also play a major role in expanding domestic refining capacity and reducing our reliance on imports. Each gallon of biodiesel produced in the U.S. displaces an equivalent amount of petroleum diesel fuel with a clean, efficient fuel, keeping jobs and profits at home.

Economic Impact

There are currently some 200 biodiesel plants across the country – from Washington state to Iowa to North Carolina – with registered capacity to produce some 3 billion gallons of fuel. A recent economic study commissioned by the National Biodiesel Board found that the industry is supporting some 50,000 jobs along with billions of dollars in GDP and household income, 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.

The Environment

Biodiesel is made from an increasingly diverse mix of resources such as recycled cooking oil, agricultural oils and animal fats. The EPA has recognized its environmental benefits by classifying it as an Advanced Biofuel, making biodiesel the only commercial-scale U.S. fuel produced nationwide to meet the agency's criteria. According to the EPA, biodiesel reduces greenhouse gas emissions that contribute to climate change by at least 57 percent and up to 86 percent when compared to petroleum diesel. In addition, biodiesel dramatically reduces most major air pollutants. That includes cutting toxic particulate matter and carbon monoxide by nearly 50 percent compared with traditional diesel, and essentially eliminating sulfur oxides and sulfates that are major components of acid rain, according to the EPA. This is particularly important because the EPA has consistently cited diesel exhaust – from trucks, buses and other vehicles – as one of the nation's most dangerous pollutants. In a March 2011 assessment, the EPA reaffirmed that diesel exhaust, particularly from older diesel vehicles, is "among the substances that may pose the greatest risk to the U.S. population."

The Future

Biodiesel already is one of the most diverse fuels in the world, produced using everything from plant oils to animal tallow to used cooking grease. This diversity of feedstocks, which has grown significantly in recent years, has helped shape a nimble industry that is constantly searching for new technologies and feedstocks. In fact, industry demand for less expensive, reliable sources of fats and oils is stimulating – and often financing – promising research on next-generation feedstocks such as algae and camelina.