AN ANALYSIS OF THE RENEWABLE FUEL STANDARD'S RIN MARKET:

WHY THE PROPOSED CHANGES TO THE RIN MARKET ARE BAD POLICY FOR THE ENERGY INDUSTRY AND U.S. CONSUMERS

The American Petroleum Institute (API) released a new study titled *An Analysis of the Renewable Fuel Standard's RIN Market*,* which found that the Environmental Protection Agency's (EPA) proposal to structurally change the RFS credits known as Renewable Identification Numbers (RINs) is misguided and will hurt the energy industry. This could ultimately harm U.S. consumers.

An Analysis of the Renewable Fuel Standard's RIN Market confirms the previous findings of the EPA, as well as findings by independent analysts. Reform of the current RIN system is not needed; the ethanol blend wall is the fundamental structural problem with the RFS. If EPA fixes the blend wall by setting feasible volume standards, then the problems these reforms are purporting to address should go away. In fact, the proposed reform will exacerbate the already broken fuels mandate, which is costly and unnecessary for U.S. consumers.

Of note, changes to the existing program structure could increase the volatility in the RIN market and undermine capital investments and business decisions fuel providers have made based on the current program.

Key Study Conclusions:

- EPA has produced a functional RINs market that has driven more than a decade's worth of investment and adaptation of business processes.
- EPA's proposal to rework certain features of the RIN market to address complaints by one small group of stakeholders would be a serious policy misstep.
- Improving the position of some fuel providers at the expense of others is not a valid goal of public policy.
- RIN reforms might have the effect of compelling parties to sell surplus RINs at a cost that is less than the cost of generating the RINs, and undermine the goals of the RFS program.
- Adopting changes to the RIN market designed to advantage net buyers of RINs would be particularly unjustified given EPA's determination that buyers of RINs generally recover the cost of the RINs.
- Measures that purport to smooth the rough edges of market signals will only dampen the market response to those signals and require additional changes in the future.

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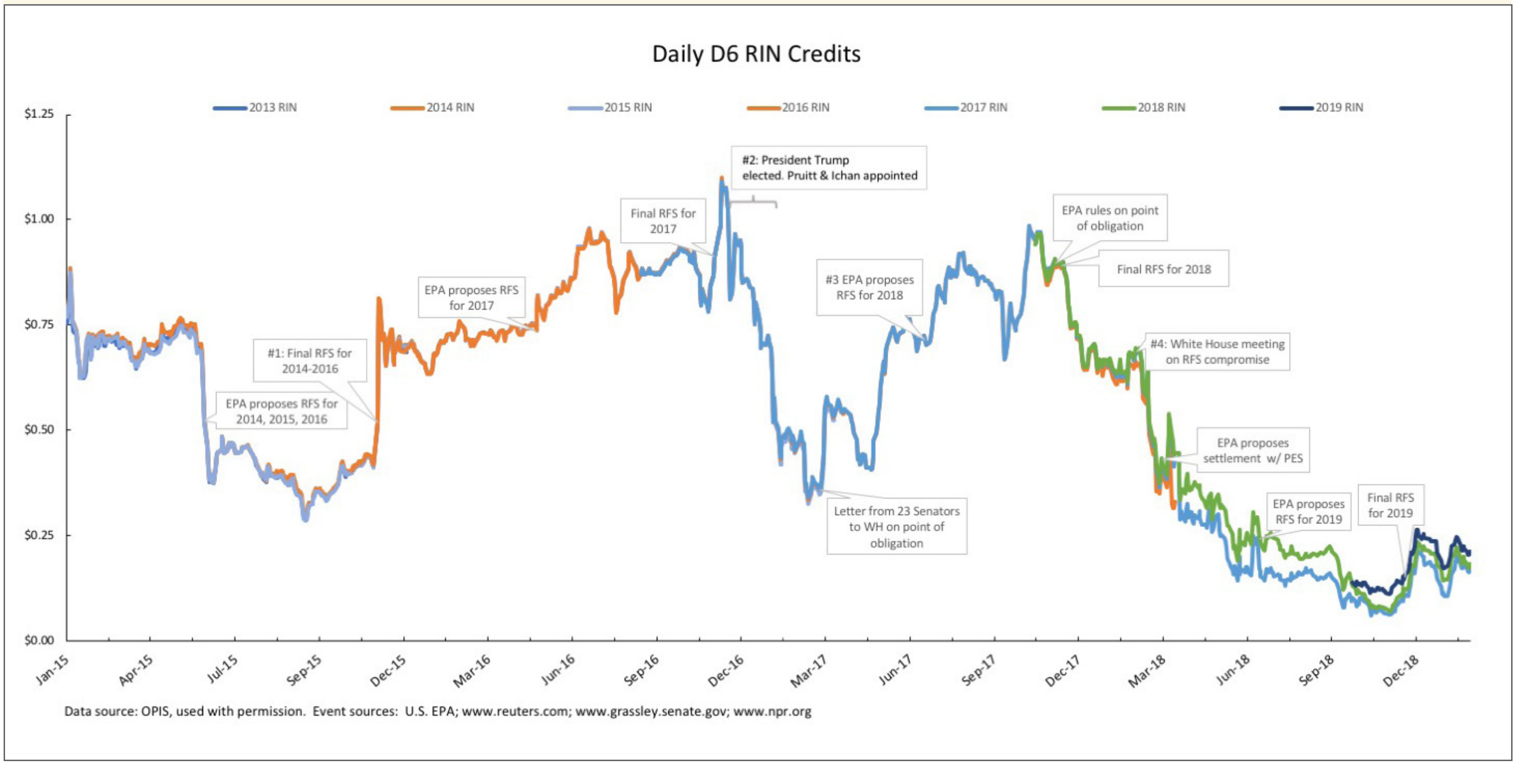
* **Covington & Burling,** An Analysis of the Renewable Fuel Standard's, 2019 RIN Market; White Paper, February 15, https://www.api.org/~/media/Files/Policy/Fuels-and-Renewables/2019/RIN-market-paper.pdf

Why EPA's Proposed Changes to the RIN Market are Bad Policy:

- EPA has suggested solutions to target alleged abusive behavior by some market participants, despite a lack of evidence of hoarding or manipulation in the RINs market.
- Despite some parties raising concerns with the price of RINs, generally refiners are able to recover RIN costs in the refined products they sell.
- The RINs market is not the same as an energy or other commodity market, and the short lifespan of RINs makes the suggested reforms particularly unnecessary.
- Notwithstanding a lack of evidence of alleged abusive behavior, EPA is ignoring the two basic factors affecting RIN volatility that should be addressed:
  - **The Ethanol Blend Wall** – which is defined as the inherent "ceiling" on the quantity of ethanol that can be used by existing cars on the road today and in gas stations.
  - **The Impact of Regulatory and Political Developments** – Dramatic RIN price swings have resulted from EPA's own regulatory actions, as well as reports of how EPA intends to implement the program (see chart below).



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