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Support Repeal of the Biodiesel Credit for the Use of Animal Fats

Background
The American Cleaning Institute (ACI) is the trade association for the cleaning products and oleochemical industry in the U.S. ACI's more than 100 member companies are America's leading producers of soaps, detergents and general cleaning products, as well as the manufacturers who supply the ingredients and finished packaging for these products. ACI's member companies contribute over $30 billion to the U.S. economy on an annual basis. Generally, the Oleochemicals industry refers to a large family of manufacturers of cleaning and personal care products, including; laundry detergent, tooth paste, bar soap, bath gels and shampoos. Historically, animal fats have provided domestic oleochemical producers with a competitive raw material cost advantage over foreign-sourced palm oil, the primary alternative to the use of animal fats in the above mentioned products.

Unintended Consequences
Beginning with the passage of the 'American Jobs Creation Act of 2004', Congress created a $1 per gallon credit for the production of biodiesel, including that which is produced from animal fats. The credit has been renewed annually, however it lapsed at the end of 2013. This policy change had the unintended consequence of distorting the market for domestically utilized animal fats, leading to a 116 percent increase in the cost of this valuable raw material since 2006. Furthermore, the supply of animal fats in the U.S. is largely inelastic (animals are raised for their meat, not fat), therefore supply has rapidly outstripped demand, giving biofuels producers a tremendous market advantage.

Economic and Environmental Impacts
It is estimated that the domestic oleochemical industry directly and indirectly supports approximately 25,000 American jobs. If current tax policy related to biofuels is extended again there is a very real possibility that some domestic manufacturers will shift production overseas, where foreign sources of palm oil (the primary alternative to the use of animal fats) are significantly cheaper. In addition to costing the U.S. economy thousands of jobs, a greater reliance on palm oil for manufacturing oleochemicals has serious environmental implications. Oil palm trees are primarily cultivated in Indonesia and other tropical South Asian countries, and the rising demand for palm oil has led to slash and burn farming in rain forests which increases CO_2 release, reduces CO_2 consumption and threatens native wildlife.

Conclusion
If the $1 per gallon biofuel production tax credit is retained, the definition of biofuels should be changed such that biofuel derived from domestic animal fats would not be eligible for the credit. This change would ensure that the use of domestic animal fats remains market driven, will remove a competitive disadvantage for the U.S. oleochemical industry, and will help reduce dependence on environmentally harmful foreign palm oil.

An Amendment to a Tax Extenders Package

Purpose

To exempt animal fats from the biofuels energy tax credit in order to ensure that commercial users of these valuable products have free-market access to them.

VIZ., at the end of the bill insert the following new section:

"SEC. ____. EXEMPTION OF ANIMAL FATS FROM NATIONAL RENEWABLE ENERGY TAX CREDIT.

"(a) TAX CREDITS FOR BIODIESEL—Subsection (d) of section 40A of the Internal Revenue Code of 1986 (26 U.S.C. 40A) is amended by—

"(1) in paragraph (1), adding before the period at the end the following: 'nor biodiesel derived solely or partially from animal fats'; and

"(2) in paragraph (2), striking ', and from animal fats'.

"(b) VOLUMETRIC EXCISE TAX CREDIT FOR ALTERNATIVE FUELS.—Subsection (d)(2)(G) of section 6426 of the Internal Revenue Code of 1986 (26 U.S.C. 6424) is amended by inserting before the period at the end the following: ' except for liquid fuel derived from animal fat'.