RINs: An Economic Perspective

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A Market Gone Wild?

U.S. Struggles to Rescue Green Program Hit by Fraud

By MATTHEW L. WALD OCT. 11, 2012

BUSINESS DAY | THE HOUSE EDGE

Wall St. Exploits Ethanol Credits, and Prices Spike

By GRETCHEN MORGENSON and ROBERT GEBELOFF SEPT. 14, 2013

Icahn Calls on EPA to Fix ‘Mother of All Short Squeezes’

By Laura Blewitt and Zachary Mider August 13, 2016, 2:21 PM CDT Updated on August 16, 2016, 2:31 PM CDT

Biggest U.S. East Coast Oil Refinery Files for Bankruptcy

By Barbara J. Powell and Tiffany Kary January 21, 2018, 12:26 AM CST Updated on January 21, 2018, 10:46 AM CST

Expenses tied to renewable fuels spur Chapter 11 filing
A Tale of Fundamentals

What factors determine RIN prices?

Prices driven by *marginal* compliance costs

How much does *last* gallon of biofuel cost relative to gas/diesel
A Tale of Fundamentals

What Determines D6 Prices?

Blend wall!

- Cheap to roll out E10 nation-wide

Compliance beyond the blend wall requires:

1. High-blend ethanol fuels (E85/E15)
2. Biodiesel
A Tale of Fundamentals

What Determines D4 Prices?

No substantive blending issues

BUT, production costs much higher
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How do RINs impact gas/diesel prices?

Increases refiner costs

- Similar impact as oil price increase
- Wholesale gasoline prices increase

- Evidence to date shows refiners likely fully compensated for cost changes
- Important to distinguish between accounting versus economic costs!
Looking Forward: E15/E85 Markets

Requirements for fuels to scale

- Consumers switch from E10 to E85 when E85 is cheaper ✓
- BUT need large discounts and increased awareness ✗
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Mixed prospects looking forward

- E85 stations up ✓
- BUT, FFVs down ✗
Looking Forward: E15/E85 Markets

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- BUT, FFVs down x
- E15 (?)
Challenge with ‘Technology-Forcing’ Policies

Historically, environmental restrained industry pollution

- E.g., lead phase down
- Programs largely viewed as successful

Newer policies seek to incentivize and promote new technologies

- Must still ensure environmental integrity of programs AND balance competing industries’ interests
- Successful with respect to existing technologies
- Success less apparent with new technologies (to date)
Thank you!

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