EPA's reallocation announcement may sound like an obscure regulatory decision, but it goes to the heart of a growing problem within the Renewable Fuel Standard (RFS). EPA is already requiring significantly more biofuel than the market is producing, particularly biomass-based diesel (BBD).

Rather than addressing that supply gap, the agency's latest action shifts additional compliance obligations onto non-exempt refiners, increasing costs throughout the system. The result is an already historically expensive RFS becoming even more expensive, with negative implications for fuel affordability, domestic refining and American energy security.

The questions below explain what EPA announced, how reallocation works and why it matters.

What's the broader issue with EPA's RFS program?

EPA's 2026-27 RFS rule already established the largest and most expensive mandates in the history of the program. The rule increased the BBD mandate by roughly 70% in a single year, while domestic production has struggled to keep pace for production RINs are the compliance credits refiners use to comply with the RFS.

Put simply, EPA’s requirements already exceed what the market can realistically supply.

What was EPA’s announcement about Small Refinery Exemptions and reallocation?

On August 31, EPA granted 1.76 billion RINs worth of Small Refinery Exemptions (SREs) for the 2025 compliance year and announced its intention to fully reallocate to the 2026 and 2027 compliance burden the approximately 770 million RIN difference between projected and actual 2025 exemptions into the 2026-2027 renewable volume obligations (RVOs).

What are Small Refinery Exemptions?

Congress created SREs to provide relief to qualifying small refineries, defined by law as facilities that process no more than 75,000 barrels of crude oil per day on average, when compliance with the RFS would cause disproportionate economic hardship.

What is reallocation?

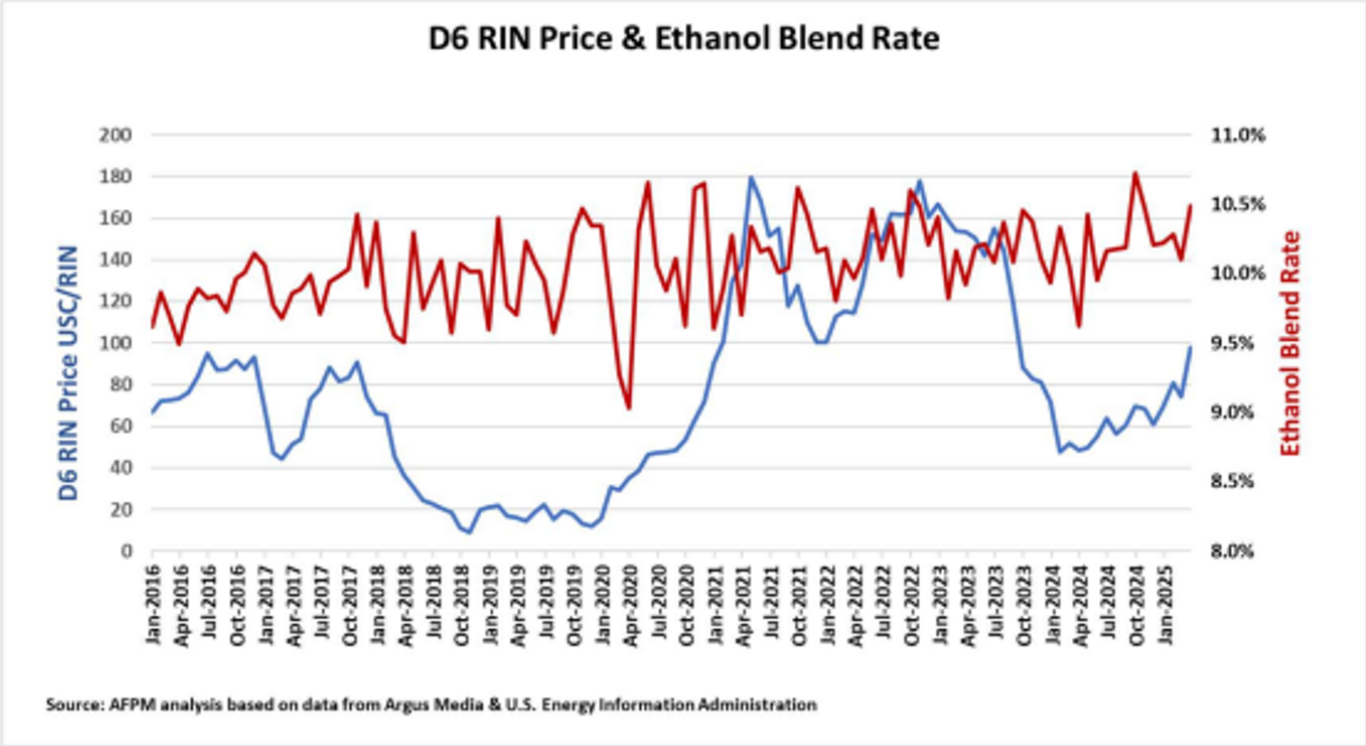
Reallocation occurs when EPA shifts exempted renewable fuel obligations onto other refiners. As a result, non-exempt refiners must acquire additional biofuels or RINs to meet their compliance obligations. The obligation doesn’t disappear. EPA just transfers it from one set of refiners to another.

Reallocation is a policy choice by EPA, not a requirement.

Does reallocation increase biofuel production?

No. Reallocation will not create more domestic biofuel in 2026 and 2027. The U.S. BBD industry does not have enough capacity to meet the 2026 mandates and cannot expand overnight. Reallocation does not change that. It forces refiners to run compliance deficits or import more biofuels, while increasing demand for a limited pool of biofuels and RINs, driving RIN prices higher. Higher RIN prices have not historically led to more renewable fuel production. Given that track record, there is little reason to believe they will suddenly drive enough additional blending or production to meet EPA's requirements by the end of 2027.

Figure 2 Historical Relationship Between Fuel Ethanol Blending and D6 RIN Prices

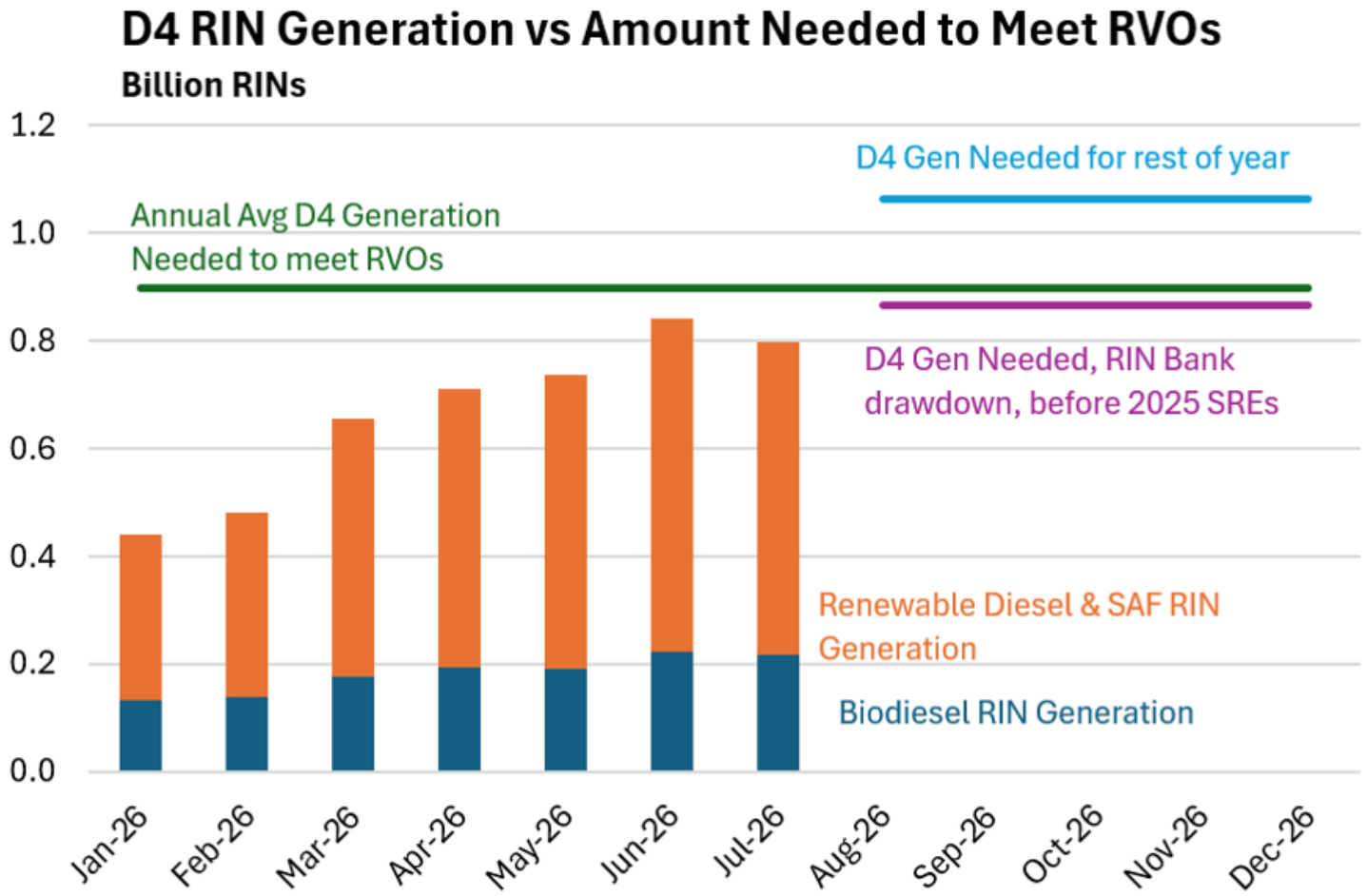


Source: AFPM analysis based on data from Argus Media & U.S. Energy Information Administration

Is the U.S. on track to meet existing requirements?

No. Domestic production of BBD is nowhere close to meeting EPA’s requirement (as indicated by D4 RIN generation in the chart below), even before considering more reallocation and more aggressive mandates.

The challenge is not lack of obligations. The challenge is that renewable fuel production is not keeping pace with increasingly aggressive mandates.



Source: EPA EMTS D4 RIN generation data; AFPM Set 2 analysis (2026). Bars show monthly RIN generation and the run-rates needed to meet RVOs under each scenario.

What is the impact of reallocation?

Reallocation is likely to lead to **more imports and higher costs.**

Because domestic BBD production is already falling short of EPA's requirements, the additional reallocated obligations cannot be met simply through greater domestic production. Instead, obligated parties must compete for a limited supply of domestically-produced biofuels and RINs, draw down the RIN bank, rely more heavily on imported fuels and feedstocks, reduce domestic fuel production or absorb higher compliance costs.

Before this announcement, RFS compliance costs reached roughly 30-40 cents per gallon. That's roughly twice the federal gasoline tax.

The most likely outcome of reallocation – higher RIN prices and a drawdown of the RIN bank – only makes the problem worse.

Those costs don't stay in the refining industry. Consumers pay more at the pump, businesses pay more to move goods and prices rise throughout the economy.

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