Renewable Fuel Standard

AFPM Views on EPA's "Set 2" Proposed Rule

Background. The Renewable Fuel Standard (RFS) is a federal policy established in 2005 and expanded in 2007 under the Energy Policy Act and the Energy Independence and Security Act, respectively. The RFS mandates the use of renewable fuels. The Environmental Protection Agency (EPA) implements the RFS by setting annual targets for four different but nested categories of renewable fuels. Refiners and importers are required to demonstrate compliance through credits called Renewable Identification Numbers (RINs). EPA recently proposed a rule establishing RFS volume obligations for 2026 and 2027.

What Works About EPA's Proposal

1. Rescinding the ability for electric vehicles to generate compliance credits. Congress did not authorize the inclusion of electric vehicles in the RFS program and EPA is correct to remove the regulatory pathway.
2. Waiving the 2025 cellulosic biofuel standard. The existing 2025 cellulosic biofuel standard exceeds expected production, and EPA must partially waive this standard to address the shortfall and facilitate compliance - obligated parties do not have other compliance options for this subset of renewable fuel.

What Does Not Work About EPA's Proposal

1. Sets the largest and most expensive mandate since the inception of the RFS program. EPA's proposal is the largest and mostly costly mandate since the inception of the RFS. It is expected to double annual compliance costs imposed by the Biden Administration, reaching nearly $70 billion each year.
2. Ignores market realities. EPA acknowledges the fact that the U.S. will not use 15 billion gallons of ethanol in 2026 or 2027, yet proposed maintaining this unrealistic mandate. Additionally, EPA ignored 2025 data showing a 25 percent reduction in advanced biofuel RIN generation when forecasting aggressive growth.
3. Requires more imported fuels and feedstocks to displace U.S. produced fuels. New analysis by S&P Global confirms that the U.S. does not have enough domestic feedstock to meet the proposed standards. Yet EPA proposed increasing the mandate while discounting credit value for imported fuels and feedstocks by 50%. EPA's proposal would require an increase in absolute imports.
4. Unjustly increases obligations on some refiners. EPA is unlawfully sitting on nearly 200 SRESs, and it also signaled it is considering shifting those burdens to other refiners, which is not legally required.
5. Compounds market issues arising from changes to the 45Z tax credit and import tariffs. Congress recently amended the 45Z tax credit to remove U.S.-manufactured fuel produced from feedstocks produced outside of North America from qualifying. There is also a tariff on all imported feedstocks for renewable fuels. Both these measures jeopardize refining industry investments in renewable fuel production.

Recommendations

AFPM supports changes to EPA's proposal that will reduce cost, protect energy security, and recognize market realities.

1. Set implied conventional mandates at expected ethanol consumption levels. This single adjustment would cut compliance costs in half.
2. Base mandates on U.S. feedstock supply instead of relying on imports.
3. Withdraw the proposed 50% import RIN reduction, as it lacks statutory authority, raises costs, and increases reliance on imported fuels and feedstocks, cannot be implemented by 2026, creates untenable regulatory burdens, and penalizes American producers of renewable fuels.
4. Use the latest available data to project 2025 production.
5. Take action on outstanding SRE petitions promptly without reallocating exempted volumes.

The Bottom Line. EPA's proposed rule is the largest and most expensive RFS in history (nearly doubling the cost of any previous year). It will raise costs for consumers, undermine energy security, and threaten U.S. fuel manufacturing. AFPM's recommended changes could reduce program costs by up to 66-68% for 2026–2027 while retaining EPA's core renewable, energy security, and rural economic development objectives.

Quick Points

AFPM is concerned with multiple aspects of EPA's proposal.

1. EPA's proposed mandate unnecessarily raises costs, including for consumers; threatens America's refining capacity dominance; and provides only nominal benefits.
   - EPA calculates the proposed rule would impose costs of approximately $6.5 billion per year, while returning energy security benefits of only $200 million per year.
   - Rather than enhancing energy security, the proposal increases reliance on imported biofuels and feedstocks.
   - An analysis by Turner Mason & Company, utilizing observed market data, found the annual compliance cost is expected to be nearly $70 billion in both 2026 and 2027, nearly doubling the previous high set by the Biden EPA (an estimated $35 billion in 2023).

2. EPA ignores market realities and makes arbitrary assumptions in support of its proposal.
   - EPA's methodology does not reflect existing federal policy and market changes, and relies on limited data. Rather than consider current data, EPA looked at only the first 5 months of data in 2023 and 2024 to "project" 2025 biodiesel and renewable diesel (e.g., biomass-based diesel or "BBD") production. Yet, EPA's own data for the first half of 2025 shows that BBD RIN generation is down 25% compared to the same period last year.
   - EPA acknowledges proposing 15 billion gallons of conventional biofuel (primarily corn starch ethanol) in 2026 and 2027 is constrained by gasoline consumption (referred to as "the blendwall"), but EPA nonetheless proposes this unrealistic volume.
   - Due to the blendwall, EPA intentionally set conventional volumes at 15 billion with the expectation that advanced biofuel volumes will backfill the gap between the 15 billion conventional mandate and the blend wall, causing a convergence of conventional and advanced RIN compliance costs.
   - Because the more typically expensive advanced biofuel RINs are the last "gallons" or RINs used to satisfy the implied conventional mandate, advanced biofuel RINs set the price for all 15 billion conventional RINs, adding significant costs and but no additional renewable fuel consumption.
   - Without changing the proposed volumes of total renewable fuel, were EPA to set the implied conventional mandate at its projected consumption levels and move the proposed additional production of advanced biofuels to their categories, EPA would halve the cost of the program without changing how the physical fuels market complies with the RFS.

3. U.S. energy and trade security is harmed by EPA's proposed volumes and RIN value reduction.
   - EPA used an outdated S&P Global feedstock assessment to support its proposed volumes. However, S&P updated their feedstock assessment in July 2025 to reflect new tax and trade policies, the proposed volumes, and reduced credit for imported fuels and feedstocks.
   - According to S&P's July 2025 assessment, US feedstocks are inadequate to meet the proposed BBD volume requirements and imported fuels and feedstock are required to meet the proposed 2026 and 2027 standards.
   - S&P estimates that the proposal will increase the amount of imported feedstocks and maintain their relative share of the renewable fuel pool in the U.S. (28-29%).
   - EPA's proposed "import RIN reduction" that lowers the compliance value of an imported fuel or fuel produced from an imported feedstock by 50 percent is arbitrary, unlawful, cannot be implemented by 2026 and will increase dependence on imported fuels and feedstocks because more volume will be required.
   - The result of this proposal is to diminish U.S.-produced petroleum fuels derived from North American crude oil, while requiring the use of more imported fuels and feedstocks.

4. EPA continues to ignore its responsibility for timely decisions on small refinery exemptions (SREs) and unjustly proposes to reallocate SREs to other refineries.
   - EPA is sitting on nearly 200 RFS SRE petitions, going as far back as 2016, even though the law requires EPA to act on these petitions within 90 days of receipt.

- EPA's delayed decisions continue to cause unacceptable uncertainty for small refineries and RFS compliance.
- EPA's proposal to reallocate SRE volumes to other obligated parties is not required by the law, harms non-exempt parties and does nothing to increase the amount of ethanol used.
- Considering the existing SRE backlog, if EPA imposes a supplemental and retroactive reallocation of historic SREs, it will cause even further harm to refiners and consumers.

5. EPA's proposal compounds market challenges caused by tariffs and changes to tax policy.
   - Congress recently restricted the ability for many refiners to qualify for the 45Z clean fuels tax credit and authorized a new multi-billion-dollar subsidy for ethanol.
   - New tariffs were waived for energy products and feedstocks, but not for imported renewable feedstocks, an action that targets refining industry investments.

AFPM supports other aspects of EPA's proposal

1. EPA rightfully proposes to eliminate the electric vehicle pathway (eRIN) within the RFS.
   - The eRIN is not authorized by statute. The RFS applies to liquid and gaseous transportation fuels.
   - Congress withheld authority to create an eRIN program, and required EPA to report on the topic so it could consider a pilot program as an "adjunct to the renewable fuel mandate."

2. EPA should finalize its proposed changes to the 2025 cellulosic mandate.
   - Similar to EPA's final rule partially waiving the 2024 cellulosic biofuel mandate, EPA should finalize its proposal to partially waive the 2025 cellulosic mandate.
   - We agree there is a projected cellulosic production shortfall, but EPA's proposal to modify the 2025 mandate to 1.19 billion RINs may not account for the deficits from its unachievable 2023 mandate and the failure to acknowledge deficits carried over to 2024.