Investment Bank Wells Fargo Criticizes RINs, Recommends Eliminating Them

Wells Fargo is not staying neutral in the battle between independent refiners and blenders of ethanol.

The investment bank put together a weekend report which advocates that ethanol RINs be eliminated, describing the Renewable Identification Numbers as "among the most expensive GHG reduction plans ever designed."

The update, sent to clients yesterday, comes after wire service reports raised the possibility that the Biden administration might "intervene" in the RINs arena thanks to record prices achieved last week. In a statement that is guaranteed to garner a vitriolic response from various renewables organizations, Wells Fargo implied that the D6 RIN costs (for ethanol) were passed through at the pump and now exceed the federal excise tax of 18.3cts/gal on motor fuel.

The report even asks the question, "Should the D6 RIN be eliminated and replaced by a higher federal excise tax?" with the implication that RINs "offer an "exceptionally expensive path to CO2 emissions reductions."

Wells Fargo analysts speculate that if the "Biden EPA" temporarily altered the D6 RINs market, there might be an immediate decline in D6 RINs as well as in retail gasoline prices, with the largest benefit going to refiners who have "deferred" RINs obligations. A better choice, the bank muses, might be a 50% hike in the federal excise tax on motor fuel.

The bank comments that D6 RINs offer "an exceptionally expensive path to CO2 reduction, when compared to open market carbon offset prices. They even posit that ethanol would "remain widely deployed even if D6 RINs were eliminated."

There is acknowledgement that wide margins for refiners might constrict if D6 RINs disappeared, but lower costs for refiners would offset the narrower cracks, the bank suggests.

OPIS has yet to hear from suppliers and parties that are RINs proponents, but it's likely they will criticize some elements of the nine-page report. Wells Fargo refers to renewable diesel RINs as worth "1.7 D6 corn ethanol RINs," when in actuality it's the D4 RIN that gets the multiplication for renewable diesel.
The report also suggests that the elevation of biodiesel RINs is due to higher soybean oil prices as well as the biodiesel tax credit (BTC). Most blenders agree that soaring 2021 bean oil prices are a major factor in D4 RIN price appreciation but might also maintain that the $1/gal BTC helps depress the biodiesel RIN value.

The report ranks independent refiners from most-to-least in their exposure to elevated RINs prices as follows: PBF, HollyFrontier, Valero, Delek, Phillips 66 and Marathon Petroleum.

Separately, Wells Fargo looks at "winners" in the RINs appreciation drama for ethanol, highlighting "fully integrated" refiners, stand-alone blenders, and "select" retail fuel marketers.

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