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Opinion: Federal fuel mandate creates energy threats

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When I took office as President George W. Bush's energy secretary in 2001, the United States was confronting numerous energy crises. First among them was our heavy dependence on foreign oil from producers in unstable regions of the world. Our domestic reserves seemed insufficient to meet Americans' growing demand, and there was widespread concern that disruptions in the fuel supply posed a very real national security threat.

Congress joined with Bush to rehabilitate the country's addiction to foreign oil by diversifying our national fuel supplies. Included in that strategy was a new federal mandate to blend certain amounts of biofuel in gas and diesel fuel.

Unfortunately, that same federal mandate — the renewable fuel standard — today threatens to draw the nation back into the same dependence on foreign fuel that compelled its creation. Despite years of progress forged by leaders who embraced America's abundant natural resources, today the U.S. is on the brink of another energy crisis.

Congress and the Biden administration must take action to protect the U.S. refining sector from the runaway costs of compliance under the mandate. Without real reform, the looming threat of fuel supply chain disruption will become our new reality. As was seen in the recent widespread gas shortages that resulted from the cyber-sabotage of the Colonial Pipeline, the closure of regional refineries has made some parts of the country more dependent on pipelines and imported fuel.

In order to comply with the fuel standard, refiners must collect a certain amount of credits — called renewable identification numbers or RINs — to show their proportional share of the mandate is blended into the fuel supply. The problem is RINs can only be collected when biofuel is physically blended with gasoline. Since you cannot blend ethanol with gasoline and transport it through a pipeline, RINs only become available at large distribution terminals or retail outlets that mix fuel for delivery to gas stations.

As a result, America's small and independent refiners that do not have the operational capacity to blend fuel on their own are forced to buy RINs from either international oil companies with large-scale blending facilities, or from Wall Street speculators. The RINs market remains opaque and unregulated, making it easy for sellers and traders to manipulate. Those sellers and traders reap the greatest benefits of this government subsidy program as they sell overpriced RINs to independent refiners and pocket the profits — at the expense of consumers who pay for these outsized profits at the pump.

This is not how the renewable fuel standard program was intended to operate, and the consequences of its dysfunction are severe. Two years ago the largest refinery on the East Coast, Philadelphia Energy Solutions, cited the unsustainable costs of RINs in its bankruptcy filing before it permanently closed and shed thousands of jobs. Today, the East Coast's remaining refineries report spending more on RINs than any other operational cost.

Since 2007, some estimate this region has lost 1.5 million barrels per day of refining capacity due to refinery closures. The most densely populated U.S. region is now heavily reliant on refined gasoline and fuel that originates hundreds or thousands of miles away, either transported by pipelines or imported from other countries. As a result, when one pipeline closes — such as what happened with Colonial — some gas stations run out of fuel, cars line up for blocks around those that do and prices spike.

These are the kind of fuel supply chain disruptions that we worried about 20 years ago, and unless Congress and the Biden administration work to rein in the spiraling costs of the renewable fuel standard, things will almost certainly worsen as more American small refineries succumb to these insurmountable costs. When they do, America will have to rely on more imports. Meanwhile, China has overtaken America as the global refining center, making it a likely future U.S. supplier. This is precisely the kind of energy dependence we sought to avoid when the mandate was created.

As Congress and the Biden administration work to address the threat of supply chain disruptions and dependence on foreign suppliers, it is imperative that we add imported gasoline and biofuel to the list of priorities. It is time to make dependence on foreign energy imports a bipartisan priority again, and the first step in that effort must be to fix the mandate and prevent this serious national security and energy security threat from worsening.

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