

UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

Department of Agricultural and Consumer Economics
College of Agricultural, Consumer and
Environmental Sciences



326 Mumford Hall, MC-710
1301 West Gregory Drive
Urbana, IL 61801-3605

December 8, 2017

Editor, *The Wall Street Journal*

1211 Avenue of the Americas

New York, NY 10036

Dear Editor,

The editorial “Ethanol Hostages on Capitol Hill” (Dec. 7) parrots the talking point of crude oil refiners that the cost of RIN credits used for compliance with U.S. biofuels mandates wrecks havoc on their bottom-line. It is very disappointing to see a WSJ editorial get the economic facts so wrong on an important policy issue. While it is true that independent refiners have large RIN costs that can be thought of as a “RIN tax,” this is only half the story.

Multiple academic studies show that refiners quickly pass RIN costs through to blenders in the form of higher wholesale prices for gasoline and diesel. In industry jargon, RIN costs show up in the crack spread. This does not require an assumption of market power on the part of refiners and is exactly what we should expect in a competitive market. The argument that refiners absorb RIN costs in their margins is equivalent to arguing that retail gasoline stations absorb gasoline taxes in their margins. As Homer Simpson would say, “D’oh!”

Refiners may incur some administrative expenses managing RIN costs that are not passed through to blenders, but this should be insignificant relative to the absolute level of RIN costs. It is also possible that a few small refiners may not be able to fully pass through RIN costs due to unique market circumstances, but this can be handled through the exemption process available to small refiners (which will be broadened based on a recent court case).

Legitimate grounds exist for criticizing U.S. biofuels mandates. The RIN costs of independent refiners is not one of them. The WSJ deserves a failing grade on the economics of RINs.

Sincerely,



Scott H. Irwin

Laurence J. Norton Chair of Agricultural Marketing
University of Illinois