

RFS EDUCATIONAL SERIES BRIEFING NO. 7: WHO WOULD WANT TO OWN A RIN?

by Clayton McMartin

As we answer the question “Who would want to own a RIN?” it is important to recognize that there are two types of RINs. There is the assigned RIN, having a K code of 1 and being associated with renewable fuel, and there is the separated RIN having a K code of 2 and serving as a paper environmental credit. This important distinction was covered in Briefing No. 6 of this series.

In the case of an assigned RIN any party downstream of the producer would have a financial interest in owning the RIN, as it places more value upon the renewable fuel product which it is associated with. As the marketplace matures, more sophisticated operators are now starting to recognize this distinction and pricing their physical product accordingly. In many instances, petroleum marketers now recognize the RIN as a key economic consideration in their blending economics.

However, even after more than two years of RIN market activity, there remain several companies in the supply chain who have yet to participate in the RIN program. Some operators are avoiding participation due to the hassle and complexity of the rules and others due to the expense associated with compliance programs. Speaking generally, only those companies who would be the smallest of distributors, of say 10,000 gallons of renewable fuel product or less per month, could justify non-participation based on financial returns. This group would represent a very small percentage of the total supply.

In the case of separated RINs, or the ultimate renewable fuel credit, the most obvious parties who have incentive to own these assets would be domestic refiners or importers of gasoline into the United States. These obligated parties are mandated under the regulation to accumulate, either through production or acquisition, their pro rata share of RINs based on the current year’s fuel standard. In the end, only an obligated party would be able to realize the intended value of a RIN. In fact, many refer to the RIN as the “Currency of Compliance” for the renewable fuel standard.

With its free market framework, speculators have also shown an interest in participating in the credit banking and trading market formed through the RFS program. Traders are now actively involved in the RIN market, having interest in acquiring RINs for the purpose of hedging a market position or for speculative financial gain. Price swings in the RIN market have been extreme over the past two years, with 300 percent plus price moves in some cases. This is a dynamic that points to the fact that there remains a need for additional liquidity and overall market efficiency, results that will only come with more understanding and time.

Finally, one last party that may also have an interest in acquiring RINs would be an individual or corporation who wishes to use RINs as a vehicle to demonstrate support for biofuel production and/or environmental stewardship. In this scenario the RIN purchaser would retire the RIN upon receipt, taking the RIN out of the market and effectively promoting additional renewable fuel production in order to fill the void that would be created by such action. This activity recognizes that the only way to generate a RIN is by also producing another gallon of biofuel product. Only in isolated cases is the market seeing such activity at this time.

Clayton McMartin is the President of the Clean Fuels Clearinghouse and the founder of the RINSTAR® renewable fuel registry. Hundreds of companies process renewable fuel and RINs on RINSTAR® each day. More information about the company is available at www.CFCH.com or by calling (575) 377-3369.