

August 26, 2024

California Air Resources Board 1001 | Street Sacramento, CA 95814

RE: Comments LCFS Amendments – 15-Day Changes

Dear California Air Resources Board,

Louis Dreyfus Company (LDC) appreciates the opportunity to comment on the California Air Resources Board's (CARB) proposed amendments to the California Low Carbon Fuel Standard (LCFS). Louis Dreyfus Company is a leading merchant and processor of agricultural goods, founded in 1851. Our activities span the entire value chain, from farm to fork, across a broad range of business lines (platforms): Carbon Solutions, Coffee, Cotton, Food & Feed Solutions, Freight, Global Markets, Grains & Oilseeds, Juice, Rice and Sugar. Louis Dreyfus Company is active in over 100 countries across six geographical regions and employs approximately 18,000 people globally. We're processors of both soy and canola in North America, producers of both biomass-based diesel and ethanol and our customer base includes all Renewable Diesel producers selling product into the California markets today.

We commend CARB's continued efforts to drive decarbonization in the liquid fuels sector through the LCFS. This program has been highly successful over the last several years in encouraging significant investment throughout the value chain, enabling industry stakeholders to support California in achieving its emission reduction goals.

However, we have concerns regarding the proposed 20% cap on soy and canola oil as feedstocks in the latest regulatory text. As outlined below, we believe the proposed changes run contrary to the program's design and goals. They could undermine the health of the broader US renewable fuels market, disrupt the synergies between California's and other US state and federal policies, and adversely affect American farmers, while increasing Californian's dependence on imported foreign feedstocks. **Given these concerns, we urge CARB to reconsider this accelerated cap on virgin oils**.

Request for Additional Review

Additionally, LDC believes this proposal warrants an additional public workshop, environmental impact analysis, and 45 day comment period. These changes are substantial and not reasonably foreseeable based on previous notices. Notably, the Initial Statement of Reasons (ISOR) there is only a single mention of a vegetable oil cap, and only within the context of the Comprehensive Environmental Justice Scenario, which was found to increase overall GHG emissions.

The LCFS is designed to reduce the carbon intensity of California's transportation fuel pool and provide an increasing range of low-carbon and renewable alternatives.¹ The program's structure naturally phases out higher carbon intensity feedstocks through progressively stricter emissions reduction targets.

Recent data indicates that 35% of California's diesel fuel pool still comprises conventional diesel.² Capping the use of soybean and canola oils would remove viable, clean, and renewable alternatives to these fossil fuels. As shown in the figure below, the current share of soy and canola oil is well above the prescribed 20% threshold; soybean and canola oil made up 31% of reported biomass based diesel feedstock during the first quarter of 2024. Given the short timeline for implementation, the only practical replacement for the gallons currently derived from these feedstocks would be conventional diesel.

This cap works contrary to CARB's goal of increasing the range of renewable alternatives as it directly limits certain alternatives. As shown below, the existing mix of feedstocks demonstrates a healthy diversity without overreliance on any single source. The proposed cap would narrow the market's focus, increasing dependence on imported feedstocks. During the previous amendments, then transportation fuels branch chief Sam Wade was once quoted as saying, "one of the nice things about the LCFS is we don't have to have a perfect crystal ball because the program doesn't pick winners. It basically sets up this system of tradable credits and provides value to the lowest carbon fuels that can come to market. So the framework really does facilitate us to look across a wide variety of options and to hopefully drive the best option to market."³ Here CARB itself is acknowledging the program functions as intended when market economics dictate the various use of feedstocks.

Additionally, this proposed change undermines the integrity of the program's fundamental design. As reported by CARB staff in April,⁴ the compliance curve naturally causes soy and canola oil BBD to become deficit generating fuels sometime between 2030 and 2033. Up until that point, BBD produced from these two feedstocks generate ever decreasing LCFS credits. The existing program structure already incentivizes the market to gradually shift away from these feedstocks <u>making an artificial cap unnecessary</u>.

This change to the fundamental program design affects far more than use of soy and canola oil in BBD production; it sends a clear signal that the long-term CARB objective is to eliminate the use of all liquid fuels in the market, irrespective of any new scientific basis. This is further evidenced by potential phasing out of new BBD pathways in 2031. Whether or not this is the intent; this marked shift in program design will work to discourage any further investments in the renewable liquid fuels space.

¹ Excerpt from <u>https://ww2.arb.ca.gov/our-work/programs/low-carbon-fuel-standard</u>

² LCFS Quarterly Summary Q2 2023 - Q1 2024

³ https://transportenergystrategies.com/2017/05/09/sam-wade-carb-excited-progress-lcfs/

⁴ <u>https://ww2.arb.ca.gov/sites/default/files/2024-04/LCFS%20April%20Workshop%20Slides.pdf</u> slide 40



BBD Feedstock Mix in the Previous Year⁵



Broader Market Implications

In 2023, LCFS-compliant gallons accounted for 51% of total BBD consumption in the US. Despite the majority share, the feedstock slate represented in gallons reported under California's LCFS program is materially different than that of the broader US Renewable Fuels Standard program (shown below). In 2023, soybean and canola oil made up 46% of feedstocks used nationwide whereas under the LCFS, the share amounted to just 31%. This feedstock use distribution shows that the LCFS is working as designed. Low-CI fuels are being imported or produced in California at a much higher rate than for other regulatory programs.

Introducing a vegetable oil cap in the U.S.'s largest BBD market would undermine the federal government's goal of reducing dependence on foreign energy and feedstocks. It would also compromise billions of dollars invested in US agricultural processing geared towards expanded domestic use of US produced crops. This accelerated pivot away from sustainable, renewable vegetable oil feedstocks fades synergies between California's state programs, the EPA's RFS and broader national level energy independence goals.

Given that row crop prices are at 24month+ lows, this cap also comes at the worst time for the US farmer. While prices had been elevated due to COVID as well as other supply chain shocks, these factors are no longer supporting markets. US farm incomes are at multi-year lows and the bright light for many US farmers had been the outlook for expanded domestic processing of US grown crops. The proposed veg-oil cap compromises existing and planned investments alike.

To add to this, inland US BBD plants without access to water born imports will be disproportionately affected by this veg-oil cap as logistics limitations make it cost prohibitive to access waste feedstocks, much of which is sourced by vessel from outside of the US. This cap compromises the economic viability of existing land-locked BBD producers and will drive additional BBD producers out of business, hurting rural

⁵ LCFS Quarterly Summary Q2 2023 - Q1 2024; assigning "other" renewable diesel as canola oil



economies as jobs are lost. We do not believe it was the intent of CARB to pick winners and losers with this update to the LCFS program.



US vs LCFS Feedstock Mix⁶

Shift in Energy Dependence to Foreign Feedstocks

From 2022 to 2023, imports of used cooking oil for BBD production tripled, largely driven by imports from China.⁷ Over the same period, imports of tallow for fuel BBD have more than doubled.⁸ Imported waste feedstocks now constitute 16% of the total used in U.S. BBD production, up from 9% in 2022 and 5% in 2021. Data suggests the sources of US used cooking oil and tallow have been fully accessed, meaning the LCFS program update puts the onus on imports to bridge the gap between the "ineligible" soybean and canola oil feedstocks currently used.

A key concern raised in prior comments submitted to CARB is the risk of chain-of-custody issues associated with these waste feedstocks. Recently, the EPA has open investigations into UCO supply chains due to potential mixing of palm and UCO.⁹ The environmental impact of this potential palm oil BBD is particularly alarming, as CARB's own analysis suggests that the carbon intensity of palm oil-derived BBD could surpass that of conventional diesel.

While LDC appreciates CARB's goal of increasing utilization of waste feedstocks, CARB cannot discount or overlook the fungibility and substitutability of BBD feedstocks. For instance, in the last year, 38% of tallow imports to the U.S. were sourced from South America.¹⁰ When South American tallow is shipped to the

⁶ EIA for total US; CARB Quarterly Summary

⁷ <u>https://theicct.org/the-case-for-a-lipids-cap-in-californias-low-carbon-fuel-standard-may24/</u>

⁸ EIA monthly reports

⁹ <u>https://www.maritec.com.sg/news-</u>

detail/US_EPA_Investigates_Biodiesel_Supply_Chains_as%20Concerns_Grow_on_Feedstock_Sources ¹⁰ USDA Global Agricultural Trade System



U.S. for BBD production, soybean oil backfills this exported tallow; both as an animal feed and a biofuel feedstock to meet Brazil and Argentina's biodiesel mandates. As a result, the intended reduction in indirect land use change is not fully realized; instead, the environmental impact is merely shifted to other jurisdictions with less stringent regulations. The proposed LCFS revisions, therefore, compromise the long term health and viability of the U.S. agricultural industry, while simultaneously benefitting agricultural sectors in other countries.

In closing, LDC appreciates the opportunity to comment on these proposed LCFS updates. We trust that CARB will carefully consider these concerns to ensure that the US farmer & the North American oilseed processing industry can continue to be a partner in California's LCFS. If CARB has any questions concerning this letter, please feel free to reach out to me at GORDON.RUSSELL@ldc.com.

Gordon Russell Head of US Grains & Oilseeds