Dear CARB Personnel,

As a California resident, I greatly appreciate the opportunity to express my opinions on energy policies affecting state residents. The LCFS program directly impacts the retail cost of both diesel and gasoline purchases in-state, and therefore affects all California residents to some extent.

For Application No. B0540, submitted by Diamond Green Diesel Holdings LLC, I would like to comment on growing imports of Asian “UCO” into the United States[[1]](#footnote-1). Issues with Asian-sourced UCO have been well-documented[[2]](#footnote-2). With CARB’s recent release of proposed LCFS amendments[[3]](#footnote-3) there was a new focus on sustainability requirements for crop-based and forestry-based feedstocks. I suggest that UCO feedstock should be subject to just as strict accounting of origin and transport when originating from non-US sources. My rationale is that without robust feedstock accounting mechanisms, Asian UCO runs the risk of laundering virgin palm oil and furthering the deforestation and sustainability concerns with palm oil. As a California resident, I understand that the cost of LCFS compliance for producers and importers of petroleum-based gasoline and diesel are passed on to the consumer[[4]](#footnote-4). As an advocate for low-carbon intensity fuels, this pass-through makes economic sense and I have no qualms with it. However, I do have serious reservations about shouldering additional costs if there is a potential that palm-oil feedstock, laundered as “UCO”, is then sold into the California market as low-carbon intensity renewable diesel.

Given the profound influence of carbon intensity (CI) on the value of a renewable fuel, the incentive to achieve the lowest possible CI score is critical in maximizing profit realized by the fuel producer. This linkage of CI score and fuel value has always been true for LCFS credits. It is the purpose of CARB Tier 2 pathways like the one I am currently commenting on. With retirement of the Blender’s Tax Credit and replacement with 45Z credits in 2025, a fuel’s CI score will gain additional importance in determining the value of a gallon of RD produced in the US. Given that UCO is the feedstock usually resulting in the lowest, most advantageous (via legislative incentives) CI score, it is natural that producers of RD would seek out as much UCO as they can source. Given the finite domestic supply of UCO, which is not adequate to meet domestic RD production capacity, it seems natural to assume that producers will search for sources of non-domestic UCO[[5]](#footnote-5). The recent appearance of Chinese UCO available for export suggests market suppliers understand this demand pressure and have responded with increased supply. My concern focuses on this supply. I will quote the late Charlie Munger: “show me the incentive and I will show you the outcomes”. The “outcomes” for RD sold in the US, I am afraid, will be fraudulent Asian palm oil masquerading as UCO unless robust auditing capabilities are in place to prevent such fraud.

I have no issues with DGD as producer of renewable diesel. They have been at the vanguard of RD production and their refining expertise and efficiencies are well known. That being said, I have to take issue with their particular Tier 2 pathway for Asian UCO unless they can produce a feedstock audit chain equal to that required of domestically sourced UCO. If regulations requiring such an audit chain for foreign “UCO” feedstock are not available at this time, I would suggest not allowing this particular Tier 2 pathway until such time as feedstock origin veracity can be obtained. I can foresee a counterargument that establishing such auditing pathways for an imported amalgam of UCO collected from hundreds to thousands of small UCO sources is too difficult and stands no chance of ever meeting robust auditing standards. I would have to agree with this. I would then argue the potential for abuse and fraud in certain international UCO markets should override this concern, and therefore render these feedstocks as unacceptable for *any* US RD production eligible for State or Federal legislative incentives. To be blunt, as a California resident who supports biofuels in general, I am very much opposed to potentially supporting any palm oil-based fuel via US citizen or California resident tax dollars. A Bloomberg “Green Markets UCO Report” (Volume 1 Issue 11, released Dec 21st)[[6]](#footnote-6) released a few days ago documents the degree to which Diamond Green Diesel has become the major US importer of Asian UCO. I also realize that I may not have access to documentation requirements for feedstock auditing as required by CARB. It may be that DGD meets CARB regulatory requirements for feedstock veracity at this time. That being said, given the recognized concern about Asian UCO and palm oil contamination, I would argue the sudden surge in Asian UCO imports combined with European skepticism about this particular feedstock should give pause to any pathways seeking to obtain LCFS credits.

To reiterate, although I am a supporter of renewable diesel, I have serious concerns with renewable diesel (and, presumably, SAF in the future) utilizing Asian UCO as a feedstock unless a robust feedstock auditing trail can be guaranteed. Given that feedstock has the largest impact on any given fuel’s CI score, assurance that a feedstock is truly what it claims to be is of the utmost importance to assure confidence in such a market. If such assurances cannot be guaranteed to a reasonable degree for a particular feedstock, I would argue against allowing use of that feedstock lest confidence in the market be compromised.

Sincerely,

Josh Kehoe

1. https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/agriculture/100423-global-uco-supply-to-double-by-2030-as-us-eu-policies-drive-asian-supply [↑](#footnote-ref-1)
2. https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/121423-new-biofuel-data-triggers-fresh-fraud-concerns-over-eu-imports [↑](#footnote-ref-2)
3. https://ww2.arb.ca.gov/rulemaking/2024/lcfs2024 [↑](#footnote-ref-3)
4. https://stillwaterassociates.com/california-fuel-prices-soar-ever-higher-on-the-wings-of-taxes-and-fees/ [↑](#footnote-ref-4)
5. https://theicct.org/publication/fuels-us-biofuel-demand-uco-feb23/ [↑](#footnote-ref-5)
6. See attached PDF file [↑](#footnote-ref-6)