ADVOCACY

MPC is in a heavily regulated industry, and we therefore work with lawmakers and regulators at the federal, state and local levels to keep them apprised of the impact of existing or proposed laws and regulations on our ability to most effectively meet the needs of our customers and other stakeholders. This sometimes involves taking positions on proposed laws or regulations. This section highlights some of our positions.

★The issue: Proposed repeal of the LIFO Accounting Inventory Method

Background: Last-In, First-Out (LIFO) is an accounting method that has been a recognized means of valuing inventory under the U.S. tax code since 1939. Under LIFO, the most recent inventory purchased is deemed to be used first. In times of rising prices, the LIFO accounting method results in better matching of costs and revenues, because cost of goods sold are valued at the current cost of replacing that inventory. MPC has consistently used the LIFO accounting method for decades to present our financial results and calculate our taxes. LIFO repeal was included in the president's budget proposal and was discussed to a limited extent by various members of Congress and their staffs during 2012, but no legislation was enacted.

MPC's position: We oppose repeal of the LIFO accounting method.

Why we took this position: LIFO repeal could result in a multibillion dollar tax penalty on industry. The proposal would require us to recalculate our inventory values and the resulting tax liability using a different accounting method, and then pay tax on the difference. This would be a retroactive imposition of a new tax liability that could reduce MPC's – and industry's – ability to grow, provide jobs and share economic value with our investors and communities.

For any company that has been using this accounting method for a number of years, LIFO repeal and subsequent recapture of tax would, in effect, impose an after-the-fact penalty for lawful accounting practices. This is unfair, expensive and could significantly impact many manufacturers at a time when the country is looking to those companies to create jobs.

★The issue: Proposed repeal of Section 199 Manufacturing Tax Deduction

Background: The Section 199 deduction was enacted to help U.S. taxpayers create and maintain well-paying manufacturing jobs in the U.S. Section 199 provides companies with a 9 percent deduction of qualifying net income from domestic manufacturing and production activities. The oil and gas industry, however, does not benefit from the same deduction level as all other companies; it was capped at 6 percent by the Troubled Asset Relief Program in 2008.

Industry opponents call Section 199 a "subsidy," and maintain that the oil and gas industry does not deserve it, despite providing goods that are critical to the nation's well-being and despite being one of the few industries showing robust job growth. During 2012, the idea of repealing Section 199, as it applied either to the entire oil and gas industry, or to a select group of companies within the industry, was a feature of various conversations within Congress in the context of attempting to modify the tax code; however, no tangible legislative threats to the deduction materialized in 2012.

MPC's position: We oppose repeal of the Section 199 tax deduction.

Why we took this position: As a manufacturer, MPC is a prime example of a company with the high-paying, skilled jobs that Section 199 was designed to create and maintain. Tax increases could reduce profitability, which in turn could reduce the amount MPC can share with its investors and with the communities where we operate, limiting our ability to grow and maintain jobs.

★The issue: The Renewable Fuel Standard (RFS)

Background: In 2007, Congress passed the Energy Independence and Security Act (EISA '07), which required increases in the volume of biofuels that refiners and others (called "obligated parties") must blend into the nation's fuel supply. This mandate organizes biofuels into four separate categories based on their greenhouse gas emissions. It also requires obligated parties to use renewable identification numbers (RINs) to demonstrate compliance with the standard. RINs are generated when biofuels are blended with gasoline and diesel transportation fuels, and can be used to demonstrate compliance with the mandate or traded independently.

Congress based EISA '07 volumetric requirements on projected growing demand for transportation fuels. However, the government's fuel demand estimates did not accurately predict the significant decrease in demand which resulted from reduced economic growth and increased Corporate Average Fuel Efficiency standards. It's also worth noting that ethanol is less fuel-efficient than petroleum transportation fuels. This means the mandated increase in fuel efficiency conflicts with the mandate to blend more of the less-efficient biofuel. The unintended consequence of the biofuels mandate is that the refining industry is burdened with an inflexible requirement to add more and more corn ethanol to a gasoline pool which has been steadily in decline. Soon the volumes of biofuel mandated under EISA '07 will exceed the 10 percent per gallon of ethanol that can be safely absorbed by the vehicle fleet in the U.S. This blending limit is called the "E10 blendwall," which may be reached before year-end 2013 if no regulatory or legislative changes are made. RIN prices have already increased in response to the approaching E10 blendwall.

Additionally, three of the four types of biofuels (corn ethanol, biodiesel, and sugar cane ethanol) are commercially available, while one of them (cellulosic ethanol) is still not available in commercial quantities. Nonetheless, the EPA, which is responsible for enforcing the law, continues to require obligated parties to blend volumes of cellulosic ethanol that do not exist. Obligated parties – including MPC – face onerous fines under the Clean Air Act if they fail to blend the required volumes of total biofuels, or pay a fee as an alternative means of compliance for the cellulosic volumes.

Congress has introduced several pieces of legislation to change or repeal the RFS and may undertake action to move forward on this in 2013.

MPC's position: We advocate for repeal of the RFS.

Why we took this position: The RFS provisions in EISA '07 are simply unworkable. In order to satisfy the demands of the Clean Air Act, the EPA requires MPC – and other obligated parties – to force more corn ethanol biofuel into gasoline transportation fuel than the vehicle fleet can safely absorb, and to blend cellulosic biofuels that don't exist. And we face significant fines if we do not comply with these requirements. The E10 blendwall is fast approaching, and the potential impact on the U.S. economy could be severe. If the E10 blendwall is not addressed, obligated parties could be faced with unattractive choices: either blend more than 10 percent ethanol into gasoline (which millions of vehicles and small engines today cannot safely use), or reduce the amount of gasoline sold in the U.S. (which could raise gasoline prices, according to a recent study by NERA Economic Consulting). And, in the absence of a decision by the EPA to stop requiring us to blend nonexistent cellulosic biofuels, we will be forced to pay a "toll" which adds unnecessary costs to each gallon of gasoline.

★The issue: Tier 3 Gasoline Proposed Rulemaking

Background: Throughout 2012, the EPA was in the process of developing new gasoline standards on the theory that the agency needed to satisfy three main goals with which we and our entire industry disagreed: (1) to implement not-yet-final National Ambient Air Quality Standards for ozone; (2) to allow the automobile manufacturers to implement new Corporate Average Fuel Economy standards; and (3) to meet the anti-backsliding provisions contained in the Energy Independence and Security Act of 2007 as a consequence of increased ethanol usage. EPA is currently focused solely on reducing the sulfur content of gasoline for this proposed rulemaking. The industry has recently reduced sulfur from 300 parts per million (ppm) to 30 ppm and could find no scientific justification for expending another approximately $10 billion to reduce sulfur to the 10 ppm the EPA planned to propose. The EPA has formally proposed a 90 percent sulfur reduction in gasoline and a series of additional changes that will impact vehicles' testing specifications.

MPC's position: We oppose reduction of the sulfur limit in gasoline to 10 ppm.

Why we took this position: The EPA did not provide any scientific justification for reducing the sulfur limit to 10 ppm, and it failed to make public any cost/benefit analysis. At the same time, a study commissioned by the American Petroleum Institute found that the sulfur limit reduction could increase the per-gallon cost of gasoline production by 6 to 9 cents. A separate study by an environmental consulting firm showed that the reduction in ozone pollution resulting from the sulfur reduction would be minimal – below the ability of monitors to measure. Meanwhile, added manufacturing costs could increase consumers' costs at the pump and reduce the ability of refiners to grow, provide jobs, and share economic value with stockholders and communities. At the same time, the proposed new requirements would increase refiners' greenhouse gas emissions, since the process of removing additional sulfur from gasoline is very energy-intensive.

★The issue: Keystone XL pipeline construction

Background: The Keystone XL pipeline is a $5.3 billion project that could transport up to 830,000 bpd of crude oil from Canada and the northern U.S. to the oil trading hub of Cushing, Okla., and on to the U.S. coast of the Gulf of Mexico, where the majority of U.S. refining assets are located.

Before Keystone XL can be built, the U.S. State Department must approve the project because it crosses the U.S. border with Canada. The State Department's Final Environmental Impact Statement, published in August 2011, concluded there would be no significant negative impact from the project. However, a few months later, the State Department announced that it would delay its decision on the pipeline.

Congress eventually agreed on a provision requiring the president to make a decision in 2012. In January 2012, President Obama announced that he was accepting a recommendation by the State Department to reject the permit because the Department could not complete environmental reviews by the deadline set by Congress.

In May 2012, TransCanada – the company proposing construction of Keystone XL – submitted to the State Department a new application that avoids environmentally sensitive areas in Nebraska, which had been a sensitive issue for the administration and Nebraska's governor in the previously submitted route. The State Department subsequently released a Draft Supplemental Impact Statement for the new Presidential Permit in March 2013. This statement requires a 45-day comment period and must be followed by a National Interest Determination that also requires public comment.

In the meantime, Congress has demonstrated strong support for approval of the pipeline project. Both chambers have submitted bipartisan letters of support for the pipeline project and are in the process of advancing legislation to approve the permits independent of the State Department.

MPC's position: We support approval of the Keystone XL pipeline.

Why we took this position: Additional crude oil supplies from Canada – a stable, friendly neighbor that is the U.S.'s largest trading partner – enhances our nation's energy security. Also, pipelines are by far the safest method of transporting crude oil, and the safety of modern pipelines is better than ever. Keystone XL's performance will be regulated by the federal Pipelines and Hazardous Materials Safety Administration, which requires rigorous safety protocols.

From an economic standpoint, an independent study found that construction of Keystone XL should provide significant, positive contributions to U.S. energy security and the U.S. economy valued at over $20 billion. The study further concluded that once the pipeline is operational, the states along the pipeline route are expected to receive an additional $5.2 billion in property taxes during the estimated operating life of the pipeline. The pipeline project is expected to directly create more than 20,000 high-wage manufacturing and construction jobs across the U.S., stimulating significant additional economic activity.