The Daily Dish

A Trump Take on CAFE Standards

DOUGLAS HOLTZ-EAKIN | AUGUST 6, 2018

As anticipated, this past week the Trump Administration issued revised Corporate Average Fuel Economy (CAFE) standards for the years 2020 to 2025. The rule featured two key policy initiatives: (1) CAFE standards will be frozen at 2020 levels, meaning that fleets will only have to average about 37 miles per gallon by 2026, rather than the roughly 50 miles per gallon under the Obama Administration rule, and (2) the administration will seek to strip California of a waiver that permits it to set its own fuel economy levels for autos.

Unsurprisingly, the new rule received support from the right and assault from the left. How should one think about the new rule?

Consider first the proposed mileage standards. From the outset, it did not appear that the assumptions that underlay the rule were sensible and, accordingly, that the actual costs would badly outstrip the benefits. As AAF wrote at the outset, “EPA admits the proposed rule could generate ‘net costs’ upward of $141 billion. However, buried in its 833-page regulatory impact analysis are the hidden, the obfuscated, and the under-reported costs the administration would rather ignore. For example, one method EPA uses to match costs and benefits is by counting benefits years into the future. With a regulation scheduled into 2025, this may make sense, until you read the language: ‘anticipated to extend over a period from approximately fifty to two hundred or more years in the future.’ These so-called ‘intergenerational benefits’ of reduced CO2 levels are expected to generate $45.6 billion in benefits.”

Accordingly, there is reason to believe that the new rule more closely balances benefits and costs. Certainly, it is expected to reduce costs. As AAF’s Dan Bosch notes, “the agencies expect to achieve savings of up to $563 billion.” As a result, “the agencies evaluated eight alternatives and chose the one that maximized net benefits. The primary driver of these net benefits is the potential value of saving roughly 12,700 lives. The agencies contend that if vehicles are less efficient, people will drive less, accounting for fewer accidents. Accordingly, though the agencies are forgoing between $200-$362 billion in benefits from the 2012 rule, the savings from the revisions result in up to $200.7 billion in net benefits.”

The second issue is that California received its waiver under the Clean Air Act in 2013. The Energy Policy and Conservation Act expressly preempts state regulations of fuel economy and the Clean Air Act empowers the EPA to drop the waiver if California “does not need such standards to meet compelling and extraordinary conditions.” Why exactly does California need such standards? The answer can’t be greenhouse gases — a state-level standard cannot address a global problem — so there would need to be a demonstration of local air quality issues.

Get ready for a vigorous 60-day comment period, followed by predictable legal challenges.