The Daily Dish

EPA's Kick in the Tailpipe

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Yesterday the Environmental Protection Agency (EPA) issued the final version of its tailpipe emissions rule that applies to light-duty vehicles — cars, sport-utility vehicles, and most pickup trucks — for model years 2027 through 2032. In the old days, the heart of the issue surrounding the rule would be the actual emissions of greenhouse gases (GHGs) and nitrogen oxides. But when viewed from the perspective of the micromanager-in-chief's climate strategy, the rule is all about forcing the transition to electric vehicles (EVs).

The rule is implemented on a fleet-wide basis. Carmakers that can't meet the emissions targets can buy credits from those that comply. For years, EV producer Tesla has fattened up its bottom line by selling credits to the traditional carmakers. Going forward, however, if credits aren't available for purchase, car companies could be forced to reduce sales of non-EV vehicles.

From this perspective, the rule is a mixed blessing. The preliminary rule was so aggressive that automakers estimated that EVs would have to constitute 60 percent of new car sales to hit the 2030 target. In the final rule, the estimate is that EVs would have to be 31 to 44 percent of sales. The more "modest" target is an acknowledgement that the infrastructure for EVs is not even close to adequate, the supply chains for critical components such as batteries are too immature, EVs are really fricking expensive, and the pace of U.S. EV sales is decelerating. In short, if you build it, there is no guarantee you can sell it.

Unfortunately, the bow to realism is short-lived as the targets for 2032 remain unchanged and require that carbon emissions from new vehicles be cut nearly in half from those that went on sale in 2026. This means that 66 percent of new sales will have to be EVs, although EPA emphasized that this could include hybrid vehicles as well.

Now for the really bad news. It is really expensive. Using the traditional discount rate of 7 percent, the cost is $450 billion (and the benefits are $1.7 trillion). Yet moving to the 2 percent rate raises the costs to $870 billion (and the benefits to $2.1 trillion). This is the clearest and most consequential impact of that change AAF has seen to date. Even using the traditional discount rate, the regulatory price tag nearly doubles the Biden to-date total and gets to $930 billion, which exceeds the full two terms of President Obama. Using the 2 percent figure (which AAF's Regulation Rodeo will use going forward), the Biden total is $1.35 trillion.

To conclude, it is worth repeating that the Biden Administration eschewed an economically rational climate strategy built on pricing GHG emissions in favor of a disjointed, sector-by-sector regulatory approach that is way too expensive at best and a devil's mix of excess costs and rent-seeking at worst. The EPA tailpipe rule and its massive cost is the inevitable byproduct of this approach.