



The Daily Dish

# The Future of Fuel Efficiency Standards

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 27, 2021

## Eakinomics: The Future of Fuel Efficiency Standards

For the past decade fuel efficiency standards have been a central focus of the regulatory world. The 2012 Obama Administration standards promised sharp (and costly) increases in Corporate Average Fuel Efficiency (CAFE) standards, which were in part reversed by the Trump Administration rulemaking. So, there was little doubt that the Biden Administration would get busy on this front. And so it has. The twist, however, is that instead of a single, joint proposal from the Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) there are two separate proposals.

There is no amount of caffeine that will permit me to reconcile and coordinate the implications of these two proposed rulemakings. Fortunately, Dan Goldbeck has evidently both drunk a Starbucks dry and done the heavy lifting for us in his latest AAF [research](#). What did he learn? To begin, there are two separate rulemakings because the agencies “contend that their different statutory mandates mean it is more practicable to publish separate rules.”

Second, EPA regulates greenhouse gas emissions under the Clean Air Act, while NHTSA directly regulates fuel efficiency under the Energy Policy and Conservation Act. As it turns out, these laws have different implications; in particular, it means that the EPA will begin new regulations with model year 2023, while NHTSA will start with model year 2024. That is one of the reasons understanding the implications is difficult.

Third, the bottom line is that the two agencies land in roughly the same spot: roughly \$150 billion in costs. NHTSA looks much higher because it includes as a cost a bit more than \$30 billion in lost state-level taxes on fuel sales.

Finally, the real stunner: These rules may not pass a benefit-cost test. How can that be? Goldbeck notes, “The most significant recent development on the fuel standards front is the agreement reached by a handful of manufacturers (representing roughly a third of the industry) to voluntarily follow California’s set of standards – setting an informal industry benchmark. Both agencies’ proposals include analyses of what amounts to a national-level California fuel standards framework as their less-stringent alternative to what was ultimately proposed.”

What do these alternatives show? Using the EPA numbers, Goldbeck concludes, “There is an apparent \$40 billion increase in costs from the California alternative to get to the proposed standards, while bringing an estimated \$22 billion in additional ‘fuel savings’ and \$17 billion in other benefits (or \$39 billion in total additional benefits) for what would then appear to be *net costs* of \$1 billion.” That’s right. It might be better to just stick to the standard negotiated with California and not do a new rule.