Insight

The Regulatory Route

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The Obama Administration recently announced a new proposal that will increase efficiency standards for the medium- and heavy-duty engines and vehicles that dominate our commercial fleet. The President touts more regulation as a “win-win-win,” but there are significant costs that even past regulations have conceded.

To date, the administration has finalized approximately $18 billion in new annual regulatory costs from increased fuel efficiency standards. On top of this, the president now wants to add another round. Based on a 2011 efficiency rule for heavy-duty engines, new regulation could easily cost $600 million annually. In lieu of new regulation designed to cut oil imports and save money, the president would be better off approving the Keystone XL pipeline.

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The 2011 heavy-duty trucks rule used efficiency improvements to save just under 182,000 barrels of oil per day. The Keystone XL pipeline would cut overseas foreign oil imports by 830,000 barrels per day; access to this cheaper North American oil would also save consumers about $9 per barrel, keeping more than $2.6 billion in North America each year.[1]

What is more striking, especially in an era of low labor force participation rates, Keystone would create jobs while regulation could actually cut employment. Another $600 million in regulatory burdens and price increases for trucks will do little to create jobs. As the administration conceded in the last heavy-duty rule: “Higher production costs due to the regulation will lead to higher market prices; higher prices in turn reduce demand for the good, **reducing the demand for labor to make that good**.”[2]

The efficiency regulation, part of President Obama’s initiative to address global warming, cut greenhouse gas emissions by 273 million metric tons of carbon pollution each year. The Keystone XL pipeline does not reduce emissions, but contributes 1.44 million metric tons of carbon pollution annually – barely a drop in the bucket compared to emissions reductions already achieved. Additionally, State Department analysis indicates that if Keystone XL is not built, the market will respond with alternatives that generate more carbon pollution than would otherwise exist.[3]

To cut foreign imports, reduce fuel costs for businesses, and create savings for consumers, approving Keystone XL is the true win-win-win option.

[1] The Energy Information Administration anticipates that North American WTI crude oil will be priced about $8.70 per barrel lower than internationally benchmarked Brent crude oil.