Regulation Review

Final EPA Tier 3 Fuel Standards

MARCH 3, 2014

The Environmental Protection Agency (EPA) has released the final version of its Tier 3 emissions and fuel standards. The rule would require further emission control measures in vehicles and reductions in the level of sulfur in gasoline. The American Action Forum (AAF) reviewed its proposed version last year. The unofficial, pre-publication version of the rule is 1,118 pages, not including the 618-page Regulatory Impact Analysis (RIA).

The final version largely includes the same standards as its proposed version. There are some flexibility and hardship measures included for small refineries to mitigate the effects of a 2017 compliance deadline. The most significant difference from the proposal is the imposition of stricter evaporative emissions standards. EPA "will require covered vehicles to have essentially zero fuel vapor emissions in use." The agency is taking this action to harmonize manufacturing practices with those already in place due to California's recent fuel regulations.

Proposed Rule

- Total Costs: $35.1 Billion
- Annual Cost: $3.4 Billion
- Paperwork: 160,942 Hours

Final Rule

- Total Costs: $14.5 Billion
- Annual Cost: $1.5 Billion
- Paperwork: 158,617 Hours

Total Net Change: -$20.6 Billion (-$1.9 Annually) and -2,325 Hours

ANALYSIS

The most significant part of the rule's final version is the dramatic drop in cost estimates, a $20.6 billion, or nearly 60 percent, reduction. Although it is still one of the more costly rules in recent years, the sheer level of the reduction is profound. However, this rulemaking still results in significant costs. Furthermore, because this rule focuses on certain industries, some states will bear a greater burden of the costs. Below are the states most affected by this rule:

Vehicle Manufacturer Costs

- Michigan: $504 million
- Texas: $418 million
- Ohio: $404 million
- Florida: $390 million
- Indiana: $361 million

Refinery Costs

- Texas: $1 billion
- Louisiana: $504 million
- Pennsylvania: $313 million
- Oklahoma: $256 million
- Illinois: $199 million

It appears that a large part of the adjustment in EPA's math comes from different cost assumptions, rather than from any real adjustment in the stringency of the standards. According to EPA's RIA, the reduction in costs from the proposed version stems from updated estimates about certain pieces of technology and different assumptions about the scope of the standards in light of other regulatory actions (such as recent CAFE standards).

EPA notes that "the significant change" in total costs is the result of the exclusion of "vehicles sold in all states (California and elsewhere) that have adopted the California LEVIII program" from its market pool. Since, as EPA claims, these vehicles are already compliant or nearly compliant under the California regulations, there is no need to count them as affected units. This group of vehicles accounts for 36 percent of overall national sales.

Much of the analysis follows the lead of the proposed version. Although EPA still admits that manufacturers and refiners will pass these costs on to consumers in the form of higher prices, they also maintain the caveat that such price increases will likely be minor. For example, EPA estimates gas price increases of approximately one cent, although industry figures are far higher. Furthermore, EPA continues to acknowledge that such price pass-throughs could diminish sales, and therefore employment. However, they claim increased, compliance-based employment will balance that effect.