Regulation Review

Heavy-Duty Truck Efficiency: Part II

JUNE 22, 2015

EPA's second round of heavy-duty truck efficiency standards could cost more than $30 billion. For perspective, the first iteration imposed costs of $8.1 billion. Partnered with the Department of Transportation (DOT), EPA issued its latest round of greenhouse gas (GHG) standards, aiming to

cut close to one billion metric tons of GHGs. The combined proposed rule consumed 1,329 pages, with a 971-page Regulatory Impact Analysis (RIA).

BREAKDOWN

- Total Costs: $17.6 billion to $31.1 billion ($1.3 billion annualized)
- Total Benefits: $203 billion to $276 billion ($11.5 billion annualized)
- Paperwork Hours: 67,389

ANALYSIS

With more than $30 billion in long-term projected costs, the administration does anticipate that a majority of these costs will be passed on to consumers. EPA separates heavy-duty trucks into four separate classes and anticipates price increases. Below are the probable increases by type from model year 2027 trucks:

- Tractors: $11,680, a 12 percent increase;
- Trailers: $1,170, a five percent increase;
- Vocational Trailers: $3,380, a five percent increase, and
- Pickups/Vans: $1,340, a three percent increase.

EPA does note that the median payback period, that is the time it takes driving a more efficient truck to recoup the higher purchase price, ranges from two to five years. Ideally, this payback period is within the useful life of the truck, allowing operators to benefit from the higher initial price through lower operating costs. Although annual benefits are $4.2 billion, the fuel savings are projected to be far higher, at $7.3 billion.

Not surprisingly, the proposal is projected to trigger the Unfunded Mandates Reform Act (UMRA) because it will result in more than $100 million (adjusted for inflation) in annual burdens on states and private entities. However, all of the costs appear to be on private entities and not on state and local governments.

In its benefits section, the administration estimates how the proposal will affect the climate. Surprisingly precise, it projects a 1.1 to 1.2 drop in CO_2 parts per million, a global mean temperature reduction of up to

0.0065 Celsius, and a global sea level reduction of up to 0.056 centimeters.

As EPA typically does in its employment analyses, the agency provides a boilerplate background on how regulation can affect employment broadly and a literature review of existing research. In the vehicle and parts industry, employment could remain constant, or actually increase by 2,300 to 4,200 jobs annually. In sum, the agency notes the "rulemaking is likely to move employment from one sector to another, rather than to increase or decrease employment." That statement is far more believable than the notion that a $30 billion rule will garner 4,200 new jobs every year, an homage to "Regulatory Keynesianism," which has little academic support.

SMALL BUSINESS IMPACTS

In its Regulatory Flexibility Act (RFA) analysis, EPA notes that it has already convened a small business review panel to solicit comments from affected entities. However, there are no small entities in the heavy-duty truck manufacturing industry, but there are some trailer manufacturers that are considered small. Some entities noted that they do not "anticipate they could manage the accounting and reporting requirements without additional staff and extensive training." A majority of the small businesses will be affected by "less than one percent of their annual sales," according to EPA.

STATE DISTRIBUTION OF BURDENS

According to the proposal, there are three main industries that are affected: heavy-duty truck manufacturing, commercial importers of vehicles, and alternative fuel converters. The table below displays the five states most affected by the heavy-duty truck proposal using the distribution of manufacturing facilities to apportion costs.

State	**Total Cost (in billions $)**
Ohio	$3.3
California	$2.6
Minnesota	$1.8
Florida	$1.5
Missouri	$1.5

CONCLUSION

In its fact sheet for the proposal rule, EPA touted the benchmarks of the measure: "saving money and supporting innovation." As Doug Holtz-Eakin wrote recently, "Ordering via regulations forces firms to produce something consumers are not currently willing to buy is a distortion of the market. The change in production is costly and the result is a product that commands a lower price." The administration will doubtless tout the benefits of the proposal, but at its core, it’s a $30 billion rule that will raise prices and affect employment. Once published, it will put the nation on track for more than $200 billion in regulatory costs. That’s a lot of distortion.