Research

EPA’s Gasoline Proposal Seeks Pollution Reductions, Higher Costs

SAM BATKINS | MARCH 29, 2013

Today, the Environmental Protection Agency proposed a rule to curb sulfur emissions in gasoline. The proposal, so-called Tier-3, would cut sulfur levels by more than 60 percent, or down to 10 parts per million. The resulting pollution decreases aim to cut smog and improve the efficiency of passenger vehicles.

The costs of this proposal stem from two categories: refinery costs and vehicle manufacturer control burdens. By 2018, the combined costs from these two groups will reach $2.6 billion; by 2021, costs will eclipse $3 billion, and by 2030 total burdens will be $3.3 billion. By 2050, discounted total costs are expected to reach $35.1 billion, making it easily the costliest proposal of 2013.

For the transportation side of the equation, total costs will hit $16.8 billion. Based on Census data, the following states will be most affected:

- Michigan: $1.2 billion;
- Texas: $996 million;
- Ohio: $962 million;
- Florida: $928 million; and
- Indiana: $860 million.

According to EPA, refineries (NAICS Code 324110) will bear substantial costs. What does this mean for states? The American Action Forum tracked the 50 largest refineries, by greenhouse gas emissions, and 13 were in Texas, with 9 in Louisiana.

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Refineries are perhaps the hardest hit, which might be one reason why the industry lobbied so vigorously against the regulation. Total costs for the industry will reach $13.2 billion, and be distributed among the following states:

- Texas: $2.5 billion;
- Louisiana: $1.2 billion;
- Pennsylvania: $746 million;
- Oklahoma: $610 million; and

- Illinois: $474 million.

The effect on small businesses is not widespread but it is profound for a few entities. According to initial data, five facilities will see reduced costs of 3 percent, and 13 facilities will bear sales declines of 1 to 3 percent. In effect, the regulation acts as a regulatory tax of 1 to 3 percent for 18 entities, not a trivial burden.

HIGHER GAS PRICES?

EPA estimates a relatively minor increase in gasoline prices for consumers, roughly 1 cent-a-gallon, or $130 per vehicle by 2025. In aggregate, prices rise by $1.2 billion; by 2030, fuel costs will increase only slightly to $1.3 billion.

EMPLOYMENT IMPACT

Most of EPA's discussion of employment is qualitative but the agency does offer a few predictions for industry-wide scenarios. For example, the proposal is expected to decrease vehicle sales, and "this is expected to decrease employment in the vehicle manufacturing sector."

For refineries, the employment impact is the same. Higher production costs on the industry would be "passed through to consumers," in turn leading to decreased sales. EPA conceded, "[W]e would expect the decrease in fuel sales to negatively affect employment in this sector."

BENEFITS

EPA estimates benefits from a variety of sources: reduced particulate matter, sulfur dioxide, nitrogen dioxide, and volatile organic compounds. By 2030, the agency pegs total health related benefits between $8 and $23 billion.

CONCLUSION

Obviously, with many regulations the industry will estimate costs and detrimental employment impacts far higher than the regulatory entity. Tier 3 is no different, but using EPA's costs as a baseline, the regulatory burdens are still high. Once published, the regulation will represent a 227 percent increase in 2013 regulatory costs. Like many environmental regulations, the costs often fall disproportionately on a few states: Texas and Louisiana. Expect the final version of Tier 3 to mirror this proposed version, with only slight modifications to overall costs and benefits.