



ECTA Study Refutes Criticism of Tier 3

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Washington, DC, June 14, 2012 – Reducing the sulfur content of gasoline will not increase the price at the pump, although it would decrease smog, generate billions of dollars in health and economic benefits, and create thousands of new jobs, concludes a new study by Drs. George Schink and Hal Singer from Navigant Economics. These findings are in stark contrast to the conclusions drawn in a study sponsored by the American Petroleum Institute.

Sponsored by the Emissions Control Technology Association (“ECTA”), the new study analyzes the economic and health implications of a pending plan by the U.S. Environmental Protection Agency (“EPA”) to reduce the sulfur content of gasoline and tighten tail pipe emission standards, a plan known as “Tier 3.”

Sulfur is a contaminant in crude oil that impedes the emissions-reduction performance of catalytic converters. Lower sulfur gasoline not only enables cleaner new cars, but also makes every existing car on the road immediately less polluting.

Although producing lower sulfur gasoline would require equipment upgrades by oil refineries, the study concludes that the private cost of these upgrades for refiners will be *de minimus* at about one cent per gallon. More importantly, the authors conclude that these costs: (1) are unlikely to be passed on to consumers in the form of higher gas prices, and (2) will be outweighed by the social benefits of cleaner air and the economic benefits of increased output and job creation generated by the refinery upgrades. These are significant findings that challenge the critics of Tier 3.

The study uses standard econometric techniques to debunk the notion promoted by others that Tier 3 will lead to higher gas prices. To draw this conclusion, Drs. Schink and Singer examine the impact on gas prices of Tier 2 regulation, a prior EPA requirement to reduce the sulfur content of gasoline more dramatically. Although Tier 2 increased the estimated cost of refining by 2 cents per gallon, the study found that it had no impact on the retail price of gasoline. In light of this finding and the fact that the estimated private cost of Tier 3 is half the cost of Tier 2, the authors conclude that it is very unlikely that Tier 3 will result in higher gas prices.

The study uses an input-output model to refute the claim that Tier 3 will result in job loss. The authors conclude that the installation of refinery equipment to reduce sulfur will generate 24,500 jobs over three years and the operation of these facilities will employ 5,300 workers. In addition, these expenditures will generate over \$6 billion in economic output and \$1.5 billion annually in employee compensation.

These economic benefits are supplemented by health benefits estimated at \$5-\$6 billion annually by 2020 and \$10-\$11 billion annually by 2030.

The Navigant Economics study also evaluates two recent economic studies that try to project the refiner cost of low-sulfur gas: one by MathPro (sponsored by the International Council on Clean Transportation) and another by Baker & O'Brien (sponsored by the American Petroleum Institute). Based on a survey of companies engaged in sulfur-reduction projects at U.S. refineries, Drs. Schink and Singer conclude that the Baker & O'Brien study exaggerated the refiners' costs compared to the range provided by survey respondents. When its capital costs were adjusted to conform to industry norms, the Baker & O'Brien model produced refinery cost increases that were not materially different from those of MathPro or the EPA, both of which have projected an increase in refining costs of about a penny a gallon.

The study is available at www.naviganteconomics.com or www.ectausa.com.

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