

Environmental Protection Agency regulations are sometimes presented as economically efficient, correcting a market failure and maximizing net social benefits; other times they appear to subordinate that goal and instead pursue the single-minded objective of reduced pollution. And sometimes they go in another direction altogether. By the EPA's own accounting, the newest [Renewable Fuel Standard](#) achieves neither economic efficiency nor improved environmental quality, and it leaves the public paying the price.

Under the Clean Air Act (as amended by the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007), EPA sets the annual volume of biomass-based diesel required to meet the Agency's renewable fuel standard. The new rule, [Regulation of Fuels and Fuel Additives: 2013 Biomass-Based Diesel Renewable Fuel Volume](#), increases the applicable volume requirement for biomass diesel fuels from the statutory baseline of 1 billion to 1.28 billion gallons in 2013.

One might think the purpose of the Clean Air Act is to improve air quality; however, a quick look at the analysis provided by the Agency tells a different story about this rule. Instead of claiming environmental improvements as the primary benefit, EPA instead relies on increases in [energy security](#), valued at \$41.2 million. Indeed, the Agency explicitly [did not quantify](#) the reduction in greenhouse gas reductions that this rule is intended to effect: "While we are not quantifying the GHG emissions impact of this [rule], qualitatively we believe that it will provide a reduction in GHGs."

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On the other hand, the Agency estimates that this standard will cause up to \$52 million in environmental *disbenefits* from reduced air quality, and will have modest but "directionally negative" effects on water quality, water use, wetlands, ecosystems, and wildlife habitats. A closer look at the emission impacts of EPA's proposed rule raises even more questions: as a result of this rule, EPA expects ambient air increases in particulate matter (PM_{2.5} and PM₁₀), nitrogen oxides (NO_x), and sulfur dioxide (SO₂), all of which are regulated by the Clean Air Act's National Ambient Air Quality Standards (NAAQS) as [criteria pollutants](#). The PM disbenefits alone amount to between [7 and 19 cents per gallon](#).

It is particularly surprising to see EPA mandating a technology that increases PM emissions because, in the context of the NAAQS, the Agency takes the position that cost is no object when the goal is to *reduce* PM emissions. In fact, EPA is set to tighten PM standards even further next month. Of course, it is states who bear the burden of NAAQS compliance, in the form of State Implementation Plans (SIPs) that must bring nonattainment areas into NAAQS attainment. The penalty is so severe (loss of federal highway funds) that nonattainment status can effectively block economic development in affected counties. The economy of a state like Ohio, with large



swaths of its urban areas in nonattainment, can be paralyzed by the designation. Indeed, a state might be tempted, as part of its SIP, to *ban* a dirty fuel like biodiesel; instead EPA is mandating its use.

So why does EPA seem to be running the ball in the wrong direction? The motivation appears to be the delivery of concentrated benefits to a very specific group: soybean farmers.

Enforcement of this rule will increase the production of soybean oil, from which most [commercial biodiesel](#) is produced. In fact, the Agency estimates that this standard will require the production of 600 million gallons of soybean-based biodiesel and 4,530 million pounds of soybean oil, almost double the 2,550 pounds of soybean oil produced for biofuels in 2011. EPA's biodiesel rule will increase the price of soybeans by [18 cents](#) per bushel, which will yield soybean farmers \$550 million in additional revenues based on 2011 bushel production [figures](#). This suggests that the extra cost of fuel at the pump is only a small fraction of the cost to consumers; many other soy products will also become more expensive. While this rule is a bad deal for American consumers, it is highly profitable for the domestic soybean industry.

To be fair to the EPA, it seems likely that that the impetus for this dirty biodiesel deal came from outside the Agency. On the day the rule was issued, Secretary of Agriculture Tom Vilsack [touted](#) the decision in Sergeant Bluff, Iowa, while touring a biodiesel plant: "A key part of the President's strategy is the development and promotion of biofuels . . . [T]oday's announcement by EPA will ensure that we are continuing to utilize biodiesel to help meet our energy needs, create jobs and strengthen the rural economy."

And the urban economy? Not so much. Of the sixteen [Metropolitan Statistical Areas](#) in Ohio, twelve, or 75 percent, are experiencing negative population growth (compared with 14 percent of MSAs in the other 49 states). With the burden of PM nonattainment status (and EPA rules working at cross-purposes), that trend is only likely to get worse.

This rule doesn't live up to the spirit of EPA's enabling statutes, nor does it live up to the letter of President Clinton's [Executive Order 12866](#), retained by President Obama, which states: "The American people deserve a regulatory system that works for them, not against them: a regulatory system that *protects and improves their health, safety, environment, and well-being and improves the performance of the economy* without imposing unacceptable or unreasonable costs on society." EPA's renewable fuel standard falls short of this requirement in two very important ways. First, the rule does not improve public health or the environment – in fact by EPA's own estimate the rule will cause environmental harm from increases in criteria pollutants. Second, the rule does not improve the performance of the economy, and essentially acts as a transfer payment from the general public to soybean farmers. This is crony phony environmentalism, and we all deserve better.

