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Growth in State by State Regulations, Especially on Environment, Could have Significant Cost Impact on Manufacturers

Obama Administration to Review California's Request to Set own Vehicle Emission Standards

SCDigest Editorial Staff

History has shown that allowing individual states broad latitude to set their own regulations on multi-state/national business can result in substantial extra costs for businesses and consumers.

Many believe, for example, that the complex patchwork of rules around medical insurance at a state level adds significantly to the cost of health coverage for individuals and businesses.

No definitive recent data seems to exist, but there appears to be a growing move at the state level to add state-specific regulations on manufacturers operating in their markets.

A 2006 study conducted by the state of Virginia, generally considered among the more business-friendly regulatory climates, nonetheless estimated that the cost to the state's 6000 manufacturers to comply with Virginia-specific rules was somewhere between $1 billion and $3.49 billion, depending on the technique used to calculate those costs.

A growing number of states are looking at unique rules around such things as mandatory paid sick leave and recycling processes for electronics and other products deemed hazardous. Some states such as Florida and California have mandated electronic chain of custody tracking for pharmaceuticals, while the other states have not.

Still, these kinds of state specific regulatory costs are minor compared with those that would impact product design or manufacturing processes at a state-specific level.

This means an individual state could have the power to change the way cars sold in its state are designed and engineered. Some fear the precedent could then spill over into other product areas, perhaps trying to regulate carbon emissions or the energy a product use at a state level – a potentially devastating nightmare for manufacturers, whether foreign or domestic.

Environmental Regulations Could be Real Challenge for Manufacturers

The enormous cost burden – and in some cases flat impossibility - of meeting unique state requirements on products or processes has many manufacturers alarmed.

Some states have made noise about imposing their own requirements for product safety, for example, in the wake of various tainted or unsafe product scandals of the past few years.

But it is in the area of environmental protection where manufacturers are most worried, and find recent action by the new Obama administration as a potential cause for concern.

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In 2007, the Bush administration denied a request by California to impose more restrictive greenhouse gas emissions standards. More than a dozen other states have adopted California's proposed restrictions, which would force automakers to cut emissions by 30 percent in new cars and light trucks by 2016.

Now, the Obama administration has agreed to review that decision, and many expect new Environmental Protection Agency chief Lisa Perez Jackson to reverse the Bush ruling.

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Keith McCoy, vice president for energy and resources policy at the National Association of Manufacturers, recently said, for example, that, "A separate waiver for California would lead to a patchwork of greenhouse gas reduction laws when climate change is a global issue and should be addressed on a national level."

In a recent exchange on a PBS television interview, **Mike Dushane**, editor of Car and Driver magazine, noted that technological and economic obstacles will make it difficult if not impossible for the auto manufacturers to develop a fleet of vehicles that meets California's standards while producing cars that are also affordable and wanted by consumers.

The reality is that most companies, cars makers or others, could not afford to produce custom products at a state by state level, and would likely try to find the lowest common denominator by incorporating all requirements, assuming they are compatible, in single product.