



2020 L Street  
P.O. Box 2815  
Sacramento, CA  
95812

Tel: 1.800.922.7349  
Fax: 916.445.5023

# The Price of Gasoline

California's cleaner-burning gasoline costs more to produce than other types of gasoline. It is unknown exactly how these increased costs will affect the price of gasoline at the pump, but an increase in gas prices is a possibility.

This fact sheet discusses price and other economic issues relating to cleaner-burning gasoline. The California Air Resources Board has tried to guide the development of cleaner-burning gasoline with a sensitivity toward gasoline prices.

### **Background**

Many factors influence the price of gasoline. The price of crude oil, production costs, weather conditions, and seasonal supply and demand all affect fuel prices. A change in any of these or other factors can change gasoline prices. Price changes are difficult to predict because of the complexity of the marketplace.

No government agency, including the Air Resources Board, has the authority to regulate fuel prices. Prices are determined by market forces that act upon the intricate network of gasoline refiners, distributors and service stations that manufacture and sell gasoline.

Federal anti-trust laws prohibit oil companies from discussing fuel prices among themselves or entering into price-setting agreements. The anti-trust laws also have prevented the oil industry from discussing their pricing policies with the Air Resources Board.

### **The Cost and Price of Cleaner-Burning Gasoline**

Based on information provided by oil refiners, cleaner-burning gasoline will cost from 5 to 15 cents more per gallon to produce than other types of gasoline. The exact amount varies depending on the refiner.

California's 13 oil refineries spent approximately \$4 billion to make needed upgrades to their facilities to produce cleaner-burning gasoline. The increased production cost of the gasoline reflects the cost of those upgrades. Additives and a more extensive refining process required for cleaner-burning gasoline further increase the production costs.

In the long-run, the price of cleaner-burning gasoline will likely reflect some or all of these increases in production costs. However, because so many factors



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determine the price of gasoline, there is no way to know for certain whether gasoline prices will increase when cleaner-burning gasoline is introduced. It is possible, for example, that gasoline prices could decrease if other factors cause a downward pressure in prices that more than compensates for the gasoline's production costs. On the other hand, if other factors cause an upward pressure in prices, the price of gasoline could increase to a level beyond that attributable solely to increased production costs.

### **Weighing Costs and Benefits**

Economic analyses of cleaner-burning gasoline show that it is an economical way to reduce air pollution.

While consumers understandably do not welcome the prospect of higher gasoline prices, the cost of air pollution is extremely high. Medical care for pollution-related ailments, as well as lost work time, cost Californians billions of dollars each year. Human suffering and a reduced quality of life also are part of the cost of air pollution. In addition, air pollution causes an estimated \$1 billion per year in damage to agricultural crops in California.

By significantly reducing air pollution, cleaner-burning gasoline will play a key role in improving the quality of life of all Californians while at the same time reducing the costs incurred for health care and crop damage. Approximately 50 percent of the smog-forming emissions in California originate from motor vehicles. Cleaner-burning gasoline is an extremely cost-effective way for motorists to pay their fair share to reduce air pollution.