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New Zealand Productivity Commission  
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Email: [www.productivity.govt.nz/make-a-submission](http://www.productivity.govt.nz/make-a-submission)

### **Low Emissions Economy Draft Report**

Please find attached the MIA's submission on the Productivity Commissions Draft Report on Low Emissions Economy.

The Motor Industry Association (MIA) is a voluntary trade association set up to represent the interests of the new vehicle industry, specifically the official representatives of overseas vehicle manufacturers. Members account for over 98% of all new vehicles imported and sold in New Zealand across the passenger car, light and heavy commercial vehicle and motor cycle including on and off road (i.e. ATV etc) sectors.

The Association has over 42 members (official distributors appointed by vehicle manufacturers) covering 79 different marques (brands).

The MIA Submission is appended to this letter.

Kind regards

A handwritten signature in black ink, appearing to read 'David Crawford', with a large, stylized flourish at the end.

David Crawford  
Chief Executive Officer

## **Motor Industry Association's submission on the Productivity Commissions Draft report on Low Emissions Economy.**

### **Introduction**

The Motor Industry Association (MIA) welcomes the Productivity Commissions Draft Report on Low Emissions Economy. There is a real opportunity for New Zealand to work towards that long-term objective and the MIA membership, representing the New vehicle industry, see itself as supporting a 2050 low emission goal. The MIA introduces to New Zealand the more safe and efficient vehicles entering the fleet today. MIA members have been able to quickly respond to, and will continue to respond to, any shift in demand to align with government and regulatory expectations. At the same time the industry recognises the need to ensure that the future direction of the New vehicle manufacturers is supporting global environmental change which will benefit all New Zealanders towards a low emissions economy.

The Draft Report provides a lot of opportunity for debate and consideration, however, needs more emphasis on developing a long term structural adjustment to all sectors of the economy, in particular to transport. The MIA submission focuses primarily on the transport sector's potential contribution to a low emissions economy.

For long term studies the Commission should have attempted to answer the following: *"Here we are in 2018 – how did we get to where we are now"* and *"It is 2050 and New Zealand has a low emissions economy, how did we do it?"*

Instead the Draft Report talks about longer terms 2030, and 2050 but appears to offer shorter-term views or solutions. To get to where we all want to be, the Final Report will need to form a set of recommendations that offer short, medium and long-term goals or targets that will collectively deliver the low emission economy it promotes.

The MIA strongly supports the need for the Commission to review its approach and focus on:

- A long-term approach, not initiatives over the next three to five years
- Ways to capture the whole fleet, not just cars as they enter the fleet, e.g. e-RUC
- Highlighting the need for Government to find mechanisms that provides the right signals to consumers as opposed to focusing primarily on importers
- Interventions that both incentivise low emissions while de-incentivising high emission, and
- Advocating a full economy wide approach. That is, NZ should adopt an all sectors all emissions approach. Failure to include agricultural emissions in a timely manner means other sectors are required to shoulder a disproportionate burden.

### **Specific comment**

*"Here we are in 2018 – how did we get to where we are now"*.

The Draft Report does a reasonable job in stating where we are at present but does not provide too much in how we got here. From a transport perspective, we know that New

Zealand has a big divide between urban and rural and that it is getting bigger. The greater concentration on urban areas, and in particular, the notable growth of our bigger cities means transport concerns are becoming more and more intra-regional, not inter-regional. This is especially so in Auckland. New Zealand geography is also very different with mountainous roads, lots of bridges which means our rail network was always going to be limited. This has led to most of our community needs are being transported by road. It is highly likely that this will continue. The dependency on the car is not something most New Zealanders aspire to – it is what we have had to rely on in order to get around for all sort of reasons. Reliance, dependency, accessibility have been the real needs of people over past few decades.

To see better evidence of that would be helpful in knowing what must change in order to achieve that goal of a low emissions economy.

*“It is 2050 and New Zealand has a low emissions economy, how did we do it”*

The Terms of Reference says the “The inquiry should have a long-term focus, while being cognisant of New Zealand's 2030 and 2050 emissions reduction targets”. The Draft Report does not do that. The Final report must be more about the longer-term approach, not initiatives over the next three to five years.

These shorter objectives will be important, as will intermediate objectives or interim targets but they alone will not deliver a long term low emissions economy. The Final Report must identify 2030 and 2050 targets and continually reference them throughout the report. That is the end game and should always be to the fore.

Ways to capture the whole fleet, not just cars as they enter the fleet, e.g. e-RUC

The way our vehicle fleet is evolving, for both small and large vehicles, and the pathways the Draft Report envisages, the current means of taxing the motorist will need to change. The funding take, and the funding need will become more and more unequal and totally reliant on cross subsidisation. All road users need to pay equally for the use of the roading network.

The application of e-RUC (electronic road user charges) needs to be factored in and applied to all motorists regardless of the vehicle size or fuel type of the vehicle. We already have e-RUC option available for diesel vehicles. It would be sensible to look at applying this type of road user tax for all motorists and to remove the compounding levels of fuel excise tax at the pump. Such a system could be transitioned to apply to all vehicles including those already in the fleet. New vehicles, older vehicles, petrol, diesel, electric – if they use the same road at the same time they all pay the agreed rate depending on the weight, size, motive power and range of other factors that could be used to determine an e-RUC rate for the class of vehicle on the road.

There are multiple benefits to an e-RUC system. It can also be adjusted to take into account a range of matters such as:

- the time of travel, i.e. it should cost less to travel at off-peak times,
- size of vehicle (rate adjustment for road impact the heavier the vehicle gets)

- differential rates for motive of power (incentivise low emissions/penalise high emissions) by vehicle class.
- Type of road
- Provides for funding streams specific to an area/region or individual stretch of road (makes it easier for PPP's as roads will have identifiable funding streams)
- And so on...

An e-RUC system would send the right signals to the public, make people and business think about the time they travel, the number of journeys and the relative fuel economy/emission costs.

#### Interventions that both incentivise low emissions while de-incentivising high emission

The primary purpose of the Draft Report is to develop among other elements, a framework for the transport system to achieve low-emissions. Such a framework would need to apply the same low emission standards for all new and used vehicles that enter the fleet.

The framework needs to influence demand and the use of vehicles that are in the fleet. Equally important will be the need to promote the exit of high-emissions vehicles from the fleet.

#### Advocating a full economy wide approach.

NZ should adopt an all sectors all emissions approach. Failure to include agricultural emissions in a timely manner means other sectors are required to shoulder a disproportionate burden.

The Draft Report states “New Zealand will be a “technology taker”, adopting and adapting new processes from overseas. But areas exist in which New Zealand will need to be actively involved in developing solutions, such as reducing emissions from agriculture.

New Zealand is already a technology taker and the motor vehicle sector is an example. The important aspect is to have a system that enables the uptake of new technology at the earliest opportunity. The Draft Report has a heavy focus on transport, but this needs to be applied to all sector and industry groups. The Draft Report needs to actively promote the research and international efforts to lower agricultural emissions. The Draft Report states that “...it could make a valuable contribution to other countries’ work to mitigate climate change and raise agricultural productivity”.

However, in the absence of a research breakthrough in agriculture, its exclusion from emissions charging means other sectors pay disproportionately higher costs. With the electricity sector already at a high of renewability (low emissions) the burden falls to transport. Focusing on vehicles as they enter the fleet is less than 5% of the fleet in any one year, meaning reductions via this intervention pathway will be slow and ineffectual.

For 2050, the goal must be all gases and all sectors.

For transport the goal must be all vehicles in the fleet, not just those as they enter the fleet.

### Not a level playing field

One of the reasons we have a growing light vehicle fleet is due to the access to lower cost, and less efficient and less safe vehicles. The introduction of the used imported in the 1980s did have an initial benefit of improving the quality and reliability of motor cars. It also means that vehicles became very cheap and the size of the fleet has expanded significantly compared to our population. This in turn has meant that we have an old fleet by international standards (average 14+ years), which means that New Zealand is unable to benefit from the availability of more efficient and safer vehicles. It is not surprising we worry about the health impacts and road deaths, which again is higher than other comparable countries (NZ = 69.4 road deaths per 1million population, UK is 27.6)

The MIA agrees with the Commission on having stable and enduring laws and policies. Long-term policy and regulatory stability based on sound policy development will be critical to achieving the government's goals and expectations. This will also be critical to any business sector in making an effective contribution towards a low emissions economy.

The MIA is fully supportive of the need to continually improve the standard of vehicles coming into the NZ fleet. The big concern, however, is that when a change is made to introduce a new standard, such as electronic stability control, a mechanism within a vehicle to prevent loss of control, the used vehicle importers were given several years transition period. This meant that during that period they were able to flood the market with non- ESC vehicles during that transition period. Any future interventions need to learn from those failings. The New Zealand public deserve better.

The Final report should provide credible recommendations for how New Zealand should manage a transition to a lower net emissions economy, and this can be done more even handed while still maintaining affordability.

### Transforming New Zealand's vehicle fleet

The MIA agrees with the Draft Report that New Zealand's transport system is dominated by private road transport and the Final Report needs to recognise that this will continue to be the case for the next 20 plus years. It may be more about the type of vehicles (i.e. EVs) and their use.

As the Draft Report says, electric vehicles offer some of the most promising mitigation opportunities for New Zealand, but their uptake faces several barriers. The MIA agrees with the report on the opportunity EVs will bring to New Zealand over time. Prices relative to fossil-fuel vehicles, anxiety about their limited travel range, and poor public understanding of their benefits.

There is international research that suggests Government support is required until at least 2025 to facilitate a shift away from ICE (internal combustion engines) to vehicles with some form of electrification. From the late 2020's it is expected PHEV/BEVs will be affordable in their own right.

The MIA also supports in principle the concept of introducing a "feebate" scheme, through which importers would either pay a fee or receive a rebate, depending on the emissions

intensity or fuel efficiency of the imported vehicle. However, if basing a scheme on fuel efficiency, it must apply an equal application to both the supply side and demand side. The proposal needs clear and balanced consideration. As the Draft Report says, it may be a system that benefits those who already can afford to buy an EV.

The Draft Report suggests that for the bulk of light vehicles to be electric by 2050, nearly all vehicles entering the fleet would need to be EVs by the early-2030s, and fossil-fuel vehicles will still make up a significant share of New Zealand's private vehicle fleet for some time. To help reduce emissions, the Draft Report proposes that imports of new and used fossil-fuel vehicles be required to meet rigorous emissions standards.

The MIA is supportive of emissions standards but is wary of testing of existing vehicles with the intention of removing high-emitting vehicles from the fleet. The question of emission testing for older vehicles is not a simple task if a robust and credible test is envisaged.

### Growth of Electric Vehicles

The MIA agrees that the progression towards a predominant EV will be important if we are to progress towards a low emission economy by 2050. However, it will be essential to manage all aspects of a predominant EV vehicle fleet. The vehicle, electricity demand and the vehicle and battery lifecycle management.

The Draft Report says that for heavy vehicles Hydrogen vehicle technology is developing and could provide a useful alternative to EVs. The MIA agrees that Hydrogen could be a positive alternative fuel but not as an alternative to EV.

Hydrogen and EV could equally be alternatives to fossil fuels it does not have to be one or the other. The MIA believes it is critical the Government does not back one technology over the other, it should back low emission outcomes and let the market innovate to achieve that. The Final Report should reflect

One aspect relating to the growth of EVs seems to have been ignored in the Draft Report. The section in the Report that related to waste management ignores the challenges for the recycling, repairing and disposal of EV batteries. This is an immediate issue that should be addressed in the Final Report, especially with the number of used EVs entering the fleet with half their battery life already spent.

### Support for households facing significant transition costs

The mitigation policies recommended in this report could increase the costs of household energy, food and transport. The adverse impact of such increases on the real incomes of vulnerable households can be offset through the tax and welfare system. Existing policies, such as tax credits and benefits, should be adequate to compensate lower-income households for these increased costs, provided both are regularly adjusted in line with inflation. Interventions to raise the quality of rental housing would provide health benefits and create opportunities for lower-income households to substitute away from the use of fossil fuels for heating.

Given the prominent place of transport in household emissions and living costs, a second area where additional targeted support could be considered is assistance for low-income

households to replace an emissions-intensive vehicle. New Zealand has one of the highest rates of car ownership in the developed world, reflecting the important role that private vehicles play in enabling people to be mobile.

#### Feebates and Emission standards.

As indicated earlier, the MIA believes a Feebate scheme, as a transitional pathway to eventual e-RUC of all vehicles, is a concept worth considering and would align with the objectives of the New vehicle market. Such a scheme would be preferred to an emissions standard regulation. Any such scheme must be applied to all vehicles entering the fleet - new and used imports equally.

To ensure we were only bringing in vehicles that continued to meet newer standards, and an age limit for imported vehicles could be applied. At present, the quality of used import are determined by the introduction of a safety standard or environmental standard. This means that the used import sector flood the market with older cars leading up to the new mandatory standard taking effect. This in turn creates significant spikes in the importation of older cars that then take years to exit out of the fleet.

Therefore, it is essential that a Feebate scheme must apply to imported used vehicles which accounts for about half of the vehicles entering the fleet each year. And the Scheme would apply for new and used imports at the same time.

New car importers have access to a limited range of models from which they can source vehicles to achieve a weighted average of emissions over time, as they can only import vehicles they are the distributor for. For used importers this would be much more flexible as they could simply respond by cherry picking vehicles across different brands. The Draft Report does not recognise this, instead it assumes it is more difficult and suggest exempting some importers from these requirements. The MIA would be strongly opposed to such an exemption regime, which in effect could exempt half of the vehicles being imported into New Zealand.

While we acknowledge that administering a scheme for used imports could apply additional compliance difficulties and costs, to try and apply an exemption regime for small importers is only likely to lead to practices or arrangements developed solely with the aim to avoid capture of used imports by an emissions standard.

For that reason, the MIA supports a Feebate scheme as proposed provided it was designed to achieve the same objectives that emission standards are used for in other countries. In doing so would recognise the mixed (new & used) market that exists in New Zealand, thus avoiding the difficulties associated with applying an emissions standard.

A Feebate scheme, when applied to both new and used imported vehicles would incentivise suppliers and consumers to adopt lower-emission vehicles.

## **Conclusion**

In conclusion I would like to repeat some of the messages I provided in my initial submission to the Commission on the earlier "Issues paper". In producing the Final Report for Government, the Report will apply a high burden of proof on the Commission regarding any proposed actions.

Literally no part of the economy and society will be, and should not be, left untouched. Therefore, the Final Report must be able to demonstrate with specifics and not generalities, that its proposals will, in a net-public benefit test way, leave New Zealand better off overall. The world is already changing, and quicker than ever before. This change is, in many cases, being driven by trends underway in digitalisation and decarbonisation. How New Zealand leverages off these trends, and the sequence, pace and scale of doing so will all matter deeply to New Zealand remaining an outward facing, export orientated and confident nation.

In terms of transport, New Zealand is a technology taker. Imports of new light and heavy vehicles amounts, on average, to around 0.13% of total world annual production. How we leverage the importation of technological innovations is important, especially given the high volume of old imported vehicles that are on average one to two generations behind technologies found in new vehicles.

The MIA believes transport policy settings should focus on outcomes. It is important to avoid the temptation to pick winners as this inevitably leads to market distortions and wasted resource allocation. The focus must be on managing demand not supply. Manufacturers/NZ distributors supply what people want to purchase. Supply side management leads to perverse outcomes. There are options to influence purchase decisions.

And importantly, we will never realise the opportunities that are there for us if we don't apply a level playing field for those within the same sector (new and used imported vehicles) and across sectors (transport and agriculture).