



Submission to Productivity Commission on *Low Emissions Economy*

8 June 2018



ONE HUNDRED YEARS OF TRUST

Dear Sir / Madam

Submission:

Productivity Commission Draft Report on *Low-Emissions Economy*

This submission is from:

Motor Trade Association (Inc)
PO Box 9244
Marion Square
Wellington 6141

The contact person in respect of this submission is:

Name: Greig Epps
Title: Industry Relationship Manager
Ph: (04) 381 8816
Email: greig.epps@mta.org.nz

Thank you for the opportunity for MTA to provide comment on the Commission's draft report on transitioning to a *Low-Emissions Economy*. MTA provides a perspective from the automotive industry, including vehicle dealers, repairers, and fuellers.

Yours sincerely

Greig Epps
Industry Relationship Manager

Introduction

The Motor Trade Association (Inc) (MTA) was founded in 1917 and last year celebrated 100 years of trust with the NZ motoring community. MTA currently represents approximately 3,700 businesses within the New Zealand automotive industry and its allied services. Members of our Association operate businesses including automotive repairers (both heavy and light vehicle), collision repair, service stations, vehicle importers and distributors and vehicle sales. The automotive industry employs 57,000 New Zealanders and contributes around \$3.7 billion to the New Zealand economy.

The Commission should be congratulated for preparing yet another comprehensive and well researched report for the New Zealand economy. MTA appreciates the opportunity to comment on the Productivity Commission's draft report on transitioning to a low emissions economy and have the following comments to make on behalf of the automotive industry. Our comments are limited predominantly to Chapter 11 (Transport) although we do also reference Chapter 9 (Policies for an inclusive transition).

MTA key comments:

- Moving to a low-emissions economy will strongly impact the automotive sector and the transition must be just and fair, providing support to businesses and employees affected by the changes.
- “Support” includes assistance to business owners to plan for exiting old industries and to diversify services and assistance to employees for re-training
- A just and fair transition requires clear signals from Government about intentions and actions so that businesses can confidently plan for the future and make significant long-term decisions.
- MTA supports a review of existing emissions standards to consider introducing carbon dioxide levels. That said, the report should acknowledge with more than a footnote the existing standards for exhaust emissions.
- Any introduction of new emissions standards should be progressively phased in to allow the automotive sector time to adjust operations to meet (import and sales) and test (WOF/repairs) those standards.
- As a taker of technology, the New Zealand transport sector must ensure that it can respond to developments such as:
 - the use of hydrogen and/or bio-diesel
 - charging technology (induction vs physical connections)
 - ride-sharing and autonomous vehicles

An inclusive transition

In its overview, the Commission notes that decarbonising the economy will require “old technologies and even old industries to be replaced by new” (page 1). The Commission’s report sets out a very thorough picture of the potential changes that may take place because of a need to draw on new technologies, and changes in behaviour, in order to achieve a reduction (or elimination) of carbon emissions in the economy.

MTA absolutely agrees with the Commission’s assertion (page 3) that the country must be able to plan and take long-term decisions with confidence.

MTA agrees with the Commission's finding F9.7 (as summarised on page 427 of the report) – the rate of technological and consumer change may lead to a dramatic fall in the price of low-emission vehicles, but there are many uncertainties about this. Some of those uncertainties can, however, be combatted by clear signals from Government about the size and shape of its vision for the transport sector.

In the Commission's finding F9.7, it is asserted that providing financial assistance to firms facing closure could be risky and exposed to "unproductive lobbying". MTA would encourage Government to consider if there are other ways to support some industries through transition.

For example, as the size of the vehicle fleet reduces there will be a consequential reduction in the amount of necessary repair work and servicing (due to better materials, fewer moving parts in EVs, fewer mechanical issues but perhaps increased software issues, etc). However, workshops will still need to make high capital investment in equipment, premises, and tools even as the country approaches the end of its carbon reduction pathway. The assistance that could be provided here is sound business planning advice and information such as the modelling of industry trends by region, so that these businesses are able to better prepare and plan for the transition. In many industries, but especially the trades, the business owner has come to ownership without necessarily learning the ins and outs of strategic planning. Many small business owners manage their operations day by day and week by week. They are too busy working for customers right now to be considering where their business will be in 10 years.

Trade associations can provide some of this assistance but not all. The automotive repair industry has around 5,000 business units at present. Support and assistance from Government will be needed to provide the right information and advice to business owners. Such Government assistance will help to communicate and interpret the clear signals of regulatory intention and action businesses need for planning.

MTA agrees with finding F9.8 that there should be support focused on the labour market and skills of individuals to assist with training and gaining new employment. As well, finding F9.9 is correct in saying that the current education and training system is not well set up to meet the needs of those seeking mid-career retraining. MTA would have preferred to see a substantial recommendation from the Commission regarding this problem, but we note the Commission's 2017 report on the tertiary education system and the Government review of NCEA that has recently commenced.

Transport

The Commission notes that the vehicle fleet has expanded due to rapid population growth and a decline in fossil fuel prices. MTA would agree with this assessment, and we would also note other factors such as low unemployment (meaning more people needing vehicles for work travel), low interest rates allowing more financing of both new and used purchases, and lower prices for new cars (thereby driving prices down in the used market).

MTA would observe that the ETS is not a standard topic of conversation in the New Zealand automotive sector. The price of fuel is much more affected by domestic taxes (such as regional fuel taxes), exchange rates, global supply, and domestic transport costs. There is a very competitive retail market, which means that small retail operators are more likely to eat into their own thin margins in effort to attract consumers and maintain volume than to worry about the impost of the ETS. The Commission is right to suggest that different mechanisms are needed to encourage change in the emissions profile.

The widespread adoption of EVs is a great opportunity as identified in the report. We agree that price is a barrier, although MTA believes more information campaigns are needed to educate consumers on how to determine and appreciate the long-term benefits of an EV. In making a purchase decision, it is human nature that the impact of the short-term capital outlay weighs more heavily on the decision-maker's mind.

Similarly, the "range anxiety" issue arises often because people purchase vehicle for their least-frequent yet greatest need (i.e. the family holiday once a year that requires long range driving). Travel studies show that on average Kiwis travel about 25-30km per day in work commutes. Helping people appreciate their actual immediate transports needs, and proposing options for solving their infrequent needs, may assist with acceptance and uptake.

Another element adding to the price issue is the basic economic effect of supply and demand. There are simply not enough EVs in the global supply chain at present to meet even the modest targets set for EV registration. MTA's analysis of the Japanese domestic market is that there are not enough vehicles registered in Japan that will come available¹ for import to New Zealand before the existing 2021 target date. Even with recent announcements by major corporates regarding EV fleet purchases, MTA does not believe that the new car market can make up the difference.

That said, as has been previously mentioned, there are many uncertainties about what the future state of the vehicle fleet will *need* to look like based on user demand and ownership. The future will not simply be a one-for-one flip of current internal combustion engine vehicles for electric (battery, hybrid, or plug-in hybrid). Often, discussions of future EV uptake and the challenge of transitioning to greater EV ownership fail to account for the effect of improved and increased public transport options, and the rise of ride-sharing options through technology and other fleet-sized mobility-as-a-service solutions. Certainly, MTA thinks the uptake will be slower than some of the more enthusiastic predictions (e.g. between 2021 and 2027). As a taker of technology and predominantly a used car nation, it is likely that New Zealand will be 5-10 years behind transitions in other countries.

MTA would not presuppose at this time to call for an introduction of a CO2 emissions standard for vehicles. We support the appropriate review of options and consultation that should accompany any such legislative move. We accept that the focus of the report is on carbon emissions, but MTA would note that the use of a footnote reference to the *Land Transport Rule: Vehicle Exhaust Emissions* tends to give the impression that there are no exhaust emission standards. It should be recognised that the fleet has standards for other emissions that have been considered harmful. MTA does, as we note above, agree that we should look at a standard for CO2.

MTA members support taking an approach that improves the environment. We have been waiting for a review of the emissions standards for several years now and note that such a review has been put off several times.

The outcome of any review and the transition to the introduction of new standards should be done over a defined and reasonable time-frame. This is to give the industry time to procure the necessary equipment for testing, to train staff in the test, and to educate the public about the introduction of the test and the reasons for it.

¹ By this we mean reach the age of 7 or 8 years at which point the prohibitive cost of Japanese road worthiness test (sha-ken test) moves the vehicle into the auction market and thus makes it available for New Zealand importers.

MTA supports the consideration of alternative low emission options, such as hydrogen or biofuels. We note the Commission's finding against the use of natural gas conversions for older vehicles as a transition mechanism.

MTA supports a review of other financial incentive models, such as the feebate scheme, especially if this removes the anomalous situation that some road using vehicles (causing similar wear and tear as other vehicles) are exempt from paying the road user charges designed to provide for the maintenance of those roads.

MTA also supports a review and investigation of the best way to provide energy refuelling infrastructure, but we suggest that any such review must consider the potential technologies and how people are actually using vehicles. We would expect that most people will charge EVs at home, and with the possible introduction of more induction charging in the next few years, we must consider what assets are needed for the transport system. There will be a need to allay any concerns with battery degradation from fast charging and a look at options for business models such as battery swap-outs. The key questions is "What do we mean by *charging infrastructure*?" Is it a charge point as we currently know them or some other energy replenishment device?

With respect to congestion charging and other local initiatives to modify transport behaviour, there needs to be clear communication and signalling about such regulations. This will allow businesses that provide automotive services within those affected areas the chance to transition (either to diversify services with reduced customers) or move premises to areas where congestion charge not affecting volume of vehicles.

MTA appreciates the opportunity to submit on the draft report on Low-Emissions Economy.

National contact details:

Member toll free phone: **0800 001 144**

Phone: **04 385 8859**

Fax: **0800 000 695**

Email: info@mta.org.nz

Website: www.mta.org.nz

Other contact information:

Stationery line: **0508 682 682**

Mediation service: **0508 682 633**

Human Resources Advisor: **04 381 8841**

Physical address:

Level 12, Nokia House, 13-27 Manners Street, Wellington 6011

Postal address:

PO Box 9244, Marion Square, Wellington 6141



www.mta.org.nz