



**MOTOR INDUSTRY
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INCORPORATED

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Steven Bailey
Inquiry Director
New Zealand Productivity Commission
PO Box 8036
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via email: info@productivity.govt.nz

Dear Steven

Low-Emissions Economy

The Motor Industry Association of NZ (MIA) is pleased to have the opportunity to provide a submission to the Productivity Commission on its Issues paper entitled 'Low-emissions economy', dated August 2017.

The MIA

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 40 members (official distributors appointed by vehicle manufacturers) covering 81 different marques (brands).

Introduction

The MIA recognises that the issues paper understandably canvasses a wide, diverse and complex set of issues. Given this, we have not sought to respond to the specific questions but rather have sought to provide our views on the overall shape and direction that we believe the Commission could usefully pursue and then we focus on some specific policy options the Commission might usefully consider on transport.

The MIA submission:

- Is targeted primarily on the transport sector's potential contribution to a low emissions economy, and

- is informed by the submission made by Business NZ, which the MIA supports. Parts of their submission are repeated here for contextualisation purposes.

The Mia agrees with Business NZ comments that this specific inquiry is shaped by the fact that what the Commission has been tasked to address is systemic and foundational. The Commission's advice, if accepted, will eventually result in an economy that potentially looks quite different to what it does today. We therefore agree with the Commission where it states that:

“actions to mitigate GHG emissions will require real and significant changes which will have disruptive and potentially painful impacts on some businesses and households. These changes mean that the shift from the old economy to a new, low emissions, economy will be profound and widespread, transforming land use, the energy system, production methods and technology, regulatory frameworks and institutions, and business and political culture.”

But in agreeing with this sentiment, several implications emerge, being:

- it places an especially high burden of proof on the Commission regarding any changes it proposes. Literally no part of the economy and society will be left untouched. Therefore, the Commission 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; and
- 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 agrees with Business NZ's comments where they note... *‘we do not find it particularly helpful to characterise a transition in black or white terms of ‘old economy’ or ‘new economy’, or other labels such as ‘green/clean jobs’ or brown/dirty jobs’. Such labels are not only unhelpful but misleading, unless the Commission envisages a world without, for example, metallurgy, chemicals or meat and dairy food processing, or a world were these activities continue to exist, but just not New Zealand. Businesses operate in New Zealand for a range of reasons but mostly because they are internationally competitive given the factors of production. Unless consumer demand diminishes for products such as dairy products or aluminium, or they cannot keep pace with the uptake of new technology, including low emissions technology, New Zealand is likely to retain these and other so-called ‘traditional’ or ‘old economy’ emissions intensive industries unless explicit policy decisions are made for them to face costs that are not faced by their trade-competitors. Such decisions, if made, should be transparent in their objective and outcome’.*

Comments

The MIA has the following more targeted comments on the issues paper. These points are in no particular order of preference or importance:

- agreed emission reduction targets or at least targets within a narrow range are as - if not more - important as the policy pathways used to achieve them. A credible shared political commitment needs to emerge around New Zealand's emission reduction targets. While we appreciate that targets are out of scope they are critical to the overall conversation.
- policy consensus and 'independent' institutions can be undone. The presumption that independence will provide policy durability is a chimera. A focus on new Acts, institutions and mechanisms, regardless of how stable or independent they are claimed to be, are only independent (if they are that at all) while a political consensus exists.
- there is no such thing as a flexible, but certain emissions trading scheme. Businesses seek predictability from policy settings not certainty. A desire for certainty simply implies the desire by the business seeking it to have someone other than themselves (presumably the government) accept the risk. ETS policy settings should be moved closer toward, rather than further away from market-like settings including the development of risk management tools to manage volatility (which must be remembered is a spur not a hindrance to innovation).
- electric vehicles will undoubtedly be important going forward as a key way to reduce transport emissions, as they – like our energy intensive businesses – can leverage off our increasingly renewable energy. More generally it is important that the Commission does not pick technology or product winners, and focuses on the development of a framework that will allow the market to establish what the best low emission options are. Policy interventions that demonstrably favour one competitor over another, or fuel-type over another, either directly or indirectly are unlikely to be durable (as evidenced from numerous examples from overseas jurisdictions) and risk damaging competition and worsening outcomes. Ultimately, these choices will be punished or rewarded by consumers. While EVs are going to be important, we note that Toyota, BMW AG, Daimler AG, Honda Motor Co., and Hyundai Motor Co. are all part of a consortium who have committed to spending ten billion euros on hydrogen related projects. We also understand that Methanex is looking to produce methanol for a low emissions fuel. Given that most of the world's electricity is not low emission generated, apart from nuclear, Mazda is pursuing low emission ICE (internal combustion engine) technology with its diesel/petrol combined fuel technology, which generates emissions at a similar, if not lower, level than PHEV's. We simply do not know what technologies will come to the fore, hence economic settings should encourage innovation around low emissions as opposed to focusing on one technology over the other.
- new technology investment and diffusion policies become extremely important as well as their associated policies. As a technology-taker, with the right diffusion policies, New Zealand can benefit from the rapidly falling costs of new technology especially in the energy sector, and in turn minimise any efficiency losses that might be associated with the early adoption of higher cost, higher emissions technology.
- government procurement has a greater role to play. The Commission should look across all of the tools available to government (ownership, purchase or regulation). While the power to purchase is often seen as a tool to subsidise, it need not be. As seen with the stated objectives of the recent political announcements with regard to EVs, government procurement can be used to stimulate the development of a nascent technology or market, and/or help achieve scale in what is a small domestic market;

- in our experience, most shared visions are neither visionary nor shared. A shared vision might be a useful tool, but it might equally prove an unnecessary distraction to getting on with the task at hand.
- To avoid distortions in long term resource allocation it is important a low emissions economy includes all gases and all sectors. The current exemption from the ETS for agriculture is distortionary in nature and places an unfair burden on the other sectors.

Transport Policy Settings

There are several characteristics of the transport sector, in terms of light and heavy vehicles, that is relevant to the Commission's considerations. These are:

- New Zealand's total importation of new vehicles each year is around 0.13% of total world annual production. No vehicle manufacturer makes vehicles for our market. Whether or not New Zealand is, for example, EV ready is irrelevant to manufacturers, our scale is miniscule. We sometimes joke that our 0.13% of new vehicles is the error of margin on the error of margin vehicle manufactures refer to when carrying out statistical analysis for production planning. You get the point!
- Given our miniscule size, the opportunity to transition to a low emissions road transport sector rests on the ability of vehicle distributors to pick the best technologies for our market settings. This is limited by model range. The bulk of the world's market is left hand drive. Model options for EV's, PHEV's, hybrids etc which are right hand drive are fewer. However, the rate of model availability for lower emission vehicles is picking up pace. In response to the Government's EV focus, the MIA has surveyed its members on model availability and this can be found at the the following web link: - <http://www.mia.org.nz/Documents#Environment>

The MIA believes transport policy settings should:

- Focus on outcomes. As noted above it is important to avoid the temptation to pick winners as this inevitably leads to market distortions and wasted resource allocation.
- Focus 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 (see below)

Specific Transport Policies towards a low emissions economy

The MIA suggests the Productivity Commission consider the following transport policies:

- There is scope to make better use of economic pricing signals to influence purchase decisions. The MIA suggests consideration is given to removing fuel excise duty off petrol and moving all road vehicles to e-RUC (electronic road user charges). This permits the Government to set differential RUC rates to incentivise/penalise different vehicle purchasing choices (along with different rates for particular sections of the roading network, congestion management and other policy settings of the day)
- Internationally Governments use taxation rebates to incentivise the uptake of EV's. New Zealand's taxation system is less complex and layered compared to most countries there is still room to integrate the taxation system with wider economic goals. For businesses, if you want to incentivise the uptake of low emission vehicles such as EV's then a lower FBT rate compared to ICE vehicles would significantly encourage the uptake of EV's.
- For simplicity reasons, there is some merit in considering a carbon tax on fuel with offsetting tax benefits elsewhere in the economy.

Summary

The MIA would be happy to discuss this submission and any other issues the Commission considers relevant to progressing its inquiry and look forward to working closely with the Commission as it proceeds through its inquiry.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Crawford', with a large, stylized flourish extending upwards and to the right.

David Crawford

Chief Executive Officer

Motor Industry Association of New Zealand (Inc).