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Review of the Emissions Trading Scheme – Priority Issues

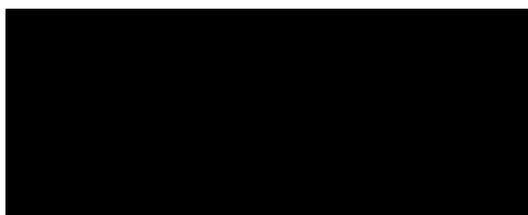
Please find attached the MIA's submission on the review of the NZ Emissions Trading Scheme, Priority Issues.

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 35 members (official distributors appointed by vehicle manufacturers) covering 77 different marques (brands). As part of its services to members the Association collects and collates a number of sources of data for the industry and now has a unique and extensive collection covering all facets i.e. sales including official registrations, stock levels, import numbers, employment etc.

We support the submission by Business NZ, except where our views in our submission differs to their views.

Kind regards



David Crawford
Chief Executive Officer
Motor Industry Association of New Zealand (Inc)



MIA RESPONSE TO PRIORITY ISSUES

Introduction

The thrust of this submission is not focused on the impact of the ETS on members' businesses rather the potential outcome/impact on the transport sector specifically the vehicle fleet, the use of vehicles and the potential impact of various measures on vehicle owners' behaviours. We concentrate on the priority issues at this point, and we will address wider issues in our second submission covering the rest of the review due by 30 April this year.

New vehicles added to the fleet each year constitute about 4% of the total light vehicle fleet. The average age of vehicles is over 14 years, and it takes 18-20 years for the fleet to turnover.

Overall the MIA's views are:

- New Zealand's response to climate change needs to be comprehensive and joined up. It is important multiple government agencies work together rather than in isolation so that 'a whole of government' policy response is developed. This is best achieved by establishing a cross-portfolio Ministerial climate change group supported by senior officials.
- The current transitional arrangements should be phased out in conjunction with the development of international trading of units and development of an auctioning system.

MIA Response to Questions 1 to 8

1. *Do you agree with the drivers for the review? Yes/No/Unsure*

Answer – yes.

2. *What other factors should the Government be considering in this NZ ETS review?*

Answer - New Zealand's response to climate change needs to be comprehensive and joined up. It is important multiple government agencies work together rather than in isolation and that a whole of government policy response is developed. This is best achieved by establishing a cross-portfolio Ministerial climate change group supported by senior officials.

Noting that New Zealand will not be able to meet its future obligations (targets recently agreed from the Paris meeting of the parties) from domestic reductions alone it is important the ETS is viewed within a wider set of policies. Within these wider policy settings, the New Zealand transport sector can play its part in reducing emission levels, if the right policy settings across our economy are put in place. In the view of the MIA, the policy settings most likely to help accelerate the reduction in greenhouse gas emissions from transport are:

- Ones that accelerate the uptake of new technology and those policies that limit the age at which used imports come into the country as this slows down new fuel efficient technology penetration rates.
- Policies which address the emissions of the total fleet, including the use of vehicles, will result in more overall savings than policy initiatives which only focus on a segment of the market, for example new vehicles added to the fleet. Demand side policies such as an emission trading scheme are better placed to achieve emissions reductions than supply side control which is often fraught with unforeseen and perverse outcomes.

- Policies that influence how a vehicle is used/driven including:
 - o A full review of fuel excise duty and RUC rates to a full e-ruc system for all vehicles will provide the government with a platform that could use pricing signals for reduction of congestion and influence consumer's choices when purchasing vehicles
 - o Increasing emissions trading and or a carbon tax on fuels to encourage vehicle owners to update to a more fuel efficient vehicle during changeover – applies to all vehicles not just new
 - o Encourage the uptake of vehicles fitted with cooperative intelligent transport systems (C-ITS) which facilitates greater efficiency of vehicle travel times and routes.

For the transport sector the influence of the ETS is via the carbon price passed on in refined petroleum products. As noted in the discussion document (page 8) carbon prices in the New Zealand ETS have fluctuated from a high of \$20 (in 2010/11) to a low of \$0.20 (in 2013/14) but due to the one for two surrender provision the actual fiscal impact on each tonne of carbon was half this amount.

This carbon price when translated into an actual 'price at the pump' equates to a high of 2.5 cents per litre and a low of 0.025 cents per litre. The MIA contends, especially the lower figure, both will not influence changes in behaviour in terms of the use of a vehicle or the relative fuel efficiency of the next vehicle purchased. Therefore, the ETS should be seen as a core, but not stand alone, climate change policy response.

The current transitional arrangements should be phased out in conjunction with the development of international trading of units and development of an auctioning system. Our view to be effective and maintain the integrity of an emissions trading scheme it needs to be internationally based (ie trading on an international basis) and all sectors inclusive.

Moving to full surrender obligations

3. Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors? Yes/No/Unsure

Answer – yes.

4. What impact will moving to full surrender obligations have on you or your business? Please include specific examples or evidence of the impacts on you or your business of:

a) increased carbon prices, including actions to reduce emissions and future investment decisions. Please comment on effects that may occur at carbon prices ranging from \$5 to \$50, including any evidence of actions taken previously when carbon prices were higher

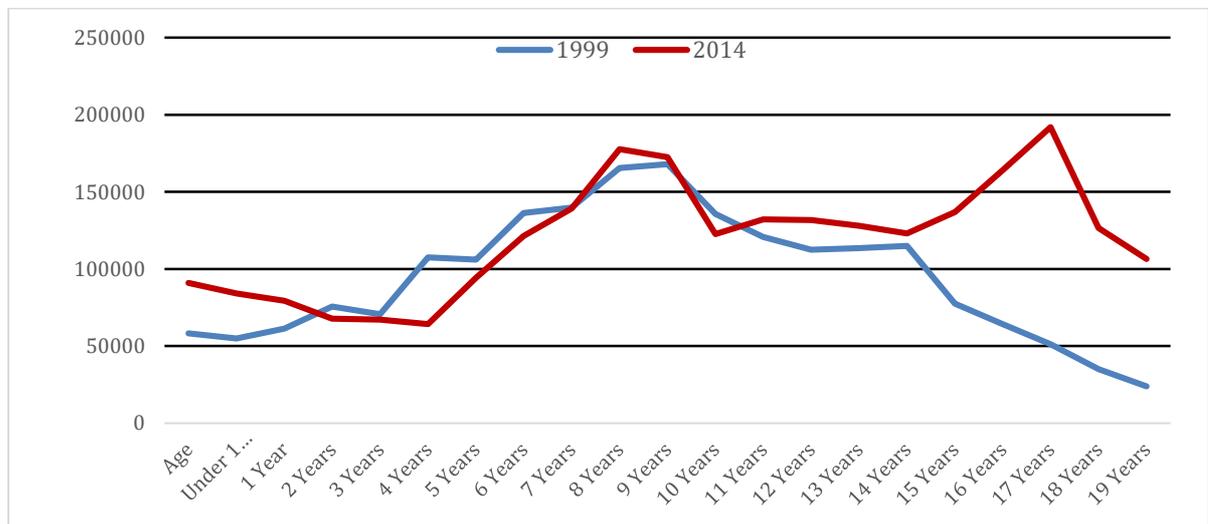
Answer – Oil prices are determined by global supply and demand and over the past four years this price has fluctuated from a high of \$US 120 per barrel to a low of \$US 28 per barrel (at 20/1/16) with current forecasts of \$US30 a barrel for the immediate future.



Over the period 2012 to 2015 the New Zealand average price at the pump of unleaded regular petrol fluctuated from a high of \$2.21 to a low of \$1.82 (December 2014 prices).

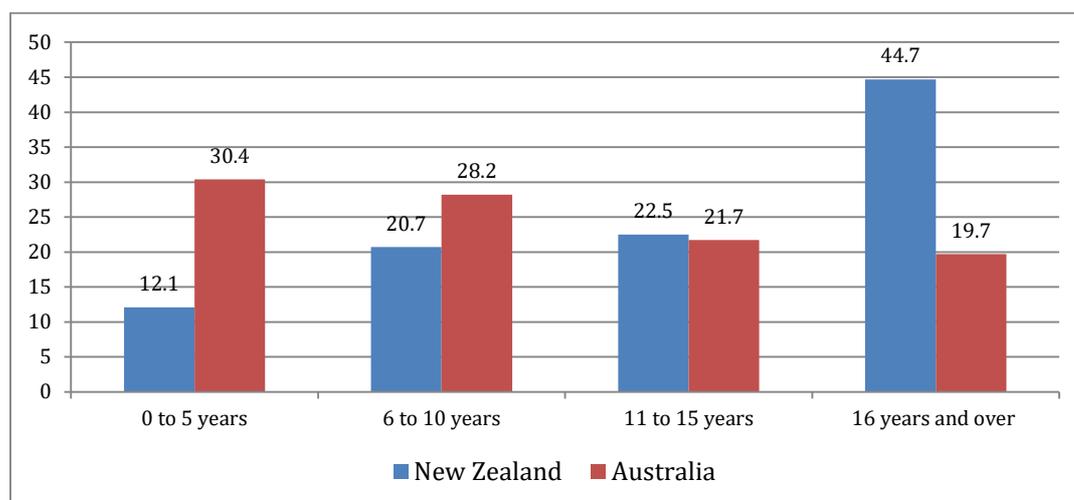
With such large price fluctuations occurring and now coupled with the record low price of oil our view is that an ETS carbon charge of up to \$50 per tonne translated into \$0.12c a litre will have minimal impact on vehicle owner behaviour i.e. how much a vehicle is used, how far it is driven and finally, of equal if not more importance, how fuel efficient that vehicle is.

In previous submissions we have noted the uniqueness of the vehicle make-up of the New Zealand fleet, specifically that the New Zealand fleet is very old and getting older and that the fleet profile is skewed to vehicles aged 14 to 18 years, as shown in the graph below.



This fleet profile is in complete contrast to what we would consider as similar markets, for example Australia. Consequently, the rate at which more efficient cars, with the latest technology, penetrates into the fleet is significantly reduced as a result of large volumes of old used vehicles being imported each year.

Passenger car fleet age profile by %



As demonstrated in the above graph the age structure of the New Zealand fleet is the complete reverse of Australia with the majority of vehicles in the New Zealand fleet aged over 16 years (44.7%), whereas in a traditional fleet model the majority of vehicles should be in the youngest age category –for Australia 30.4 % of the vehicles are 5 years and under -verse NZ s - 12.1%

As we have previously noted this profile is due directly to past and current Government policies applicable to the import of used second hand vehicles, the vast majority of which are sourced from Japan. The age profile of these vehicles is again aging as used vehicle importers focus on the oldest complying vehicle they can legally import.

Based on previous import history this trend will continue till at least March 2018 when the land transport rule mandating electronic stability control is extended to cover all used passenger vehicles.

This leads into our response to the above question. For the ETS to have any real impact on the choices vehicle owners make be it how far, how often or the choice of the next vehicle, there must be a price disincentive built into the pump price of transport fuels. However, the level of carbon price to achieve this change is very high and would adversely impact on the wider NZ economy. This leads the MIA to conclude that the ETS is an important component of our response to climate change, but it is not sufficient in and of itself. We will expand on these points in our second submission.

5. *If full surrender obligations are applied, when should this be implemented?*
- a) 2016
 - b) 2017
 - c) 2018
 - d) other – please specify.

Outline the reasons for your answer, and include any comments on the pros and cons of applying an increased surrender obligation to a partial or a full NZ ETS reporting year.

Answer – 2016. Our view is the full surrender should occur sooner rather than later. As noted above the actual impact of the ETS on the price of fuel is negligible when taken in the

context of fluctuations in the global price of a barrel of oil. More importantly, the current transitional arrangements are a barrier to the NZ emissions trading scheme re-entering the international trading markets.

Managing the costs of moving to full surrender obligations

6. If the NZ ETS moves to full surrender obligations, should potential price shocks be managed? Yes/No/Unsure

Answer – Yes. The MIA’s view is the two for one surrender should be removed sooner rather than later, and then steps put in place to ensure New Zealand can once again trade units in an international market place. Once this is achieved then the policy around a price cap should be re-evaluated with a view to its removal.

Some members of the MIA also believe it would be useful to introduce a price floor, although we are not advocating a price floor at this point in time. The MIA notes that a price floor carries a heavy administrative burden for Government and does not sit well with a market based emissions trading scheme. It may be useful to review at some future point if a price floor will help bring a greater degree of credibility to New Zealand’s set of policy responses to management of CO2 emissions. We would not recommend consideration of a price floor before an effective international trading market of emissions units is established and functioning.

Other Considerations

As noted in the discussion document, New Zealand has a unique emissions profile, characterised by several defining features:

- Approximately 48% of our emissions profile is from agriculture which is not subject to the emissions trading scheme
- Our high level of renewable electricity generation, and
- The transport sector contributes 17% of New Zealand’s total greenhouse gas emissions, the third largest sector in our country emissions profile.

The MIA recognises the impact on the world if emissions of greenhouse gases are not limited and that the global motor vehicle industry has its part to play as a supplier of products that produce CO2.

In the new vehicle space context, it must be recognised in any proposed policy initiative New Zealand is a technology taker. Emissions are reducing for new vehicle models in line with what is happening overseas therefore policies that enable New Zealand to be a fast follower should be considered. However, there is a limited ability to reduce greenhouse gas emissions from the transport sector alone.

Consequently, our view is that if New Zealand is to reach its 2030 targets, then we need both an all sectors approach and the ability to purchase CO2 reduction units from the international market. Once an effective international market has been established agriculture should be included in the ambit of the emissions trading scheme.