

The Final Report from the New Zealand Productivity Commission's Low Emissions Economy Inquiry

Reason for this briefing	On Tuesday 4 September 2018, the New Zealand Productivity Commission released its report, Low-emissions economy Final report. This briefing summarises the recommendations made about transport and assesses the extent to which they are being progressed across the Transport portfolio. It also considers whether any changes should be made to the initiative we are progressing on a legislated end-date to the import of fossil-fuelled vehicles in light of the Commission's advice.
Action required	Consider the attached briefing and advise us whether you would prefer to progress a legislated end-date to the import of fossil-fuelled vehicles, or a non-binding target.
Deadline	17 September 2018.
Reason for deadline	To enable us to action any changes to the work on the initiative to legislate an end-date to the import of fossil-fuelled vehicles.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
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MINISTER'S COMMENTS: Withheld under section 9(2)(a)

Date:	11 September 2018	Briefing number:	OC180698
Attention:	Hon James Shaw CC: Hon Phil Twyford	Security level:	In confidence

Minister of Transport's office actions

- | | | |
|---------------------------------------|---|--|
| <input type="checkbox"/> Noted | <input type="checkbox"/> Seen | <input type="checkbox"/> Approved |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> Referred to | <input type="checkbox"/> Overtaken by events |
| <input type="checkbox"/> Withdrawn | <input type="checkbox"/> Not seen by Minister | |

Purpose of report

1. This briefing assesses the extent to which the transport recommendations in the New Zealand Productivity Commission's (the Commission) report, Low-emissions economy Final report are being progressed across the Transport portfolio. It also discusses, in light of the Commission's recommendations, whether there is merit in altering the initiative we are progressing on a legislated end-date to the import of fossil-fuelled vehicles.

The purpose of the Commission's Inquiry and the transport recommendations it has made

2. In May 2017, the Government asked the Commission to identify options for how New Zealand can transition to be a low-emissions economy, while continuing to grow incomes and wellbeing. The Commission released its Final report on 4 September 2018.
3. In its report the Commission finds that substantial change will be needed, across the economy, to transition to being low emissions. Essentially, this change involves replacing fossil-fuels, where feasible, with renewable electricity and low carbon fuels like drop-in biofuels. Substantial land use change will also be required in favour of large-scale new forestry plantations and significant growth in horticulture.
4. The Commission identifies transport as a sector where there is significant scope to reduce emissions. To realise this abatement potential, the Commission makes the following ten recommendations.
 - 4.1. The Government should introduce a price feebate scheme for vehicles entering the fleet, subject to identifying the most suitable design features for the New Zealand context (including features to limit the burden on low-income households). The feebate scheme should replace the existing road-user charge exemptions for light EVs.
 - 4.2. The Government should provide financial support for charging infrastructure projects to support the uptake of EVs. Support should be limited to specific gaps in the charging network that are not commercially attractive to the private sector (e.g. charging stations in lowly populated regions).
 - 4.3. The Government should encourage government agencies, where practical, to procure low emission vehicles. It should regularly review its procurement catalogue with a view to increasing the model range of lower-cost low-emissions vehicles.
 - 4.4. The Government should introduce CO₂ emissions standards for light vehicles entering the New Zealand fleet, subject to detailed consideration of design options (e.g. including or excluding small traders).
 - 4.5. The Ministry of Transport should further evaluate the benefits and costs of incentivising the early scrapping of fossil-fuel vehicles to be replaced by low-emission vehicles, taking into consideration any impacts of other mitigation policies (e.g. feebates and the emissions) on low-income households.
 - 4.6. The Ministry of Transport should work with the Ministry of Business, Innovation and Employment to remove any remaining tariffs on low emission vehicles, or parts for low emission vehicles.
 - 4.7. The Ministry of Transport, with other relevant agencies, should explore the suitability of low-carbon fuels standards, and a grant scheme for low-carbon fuels, for decarbonising New Zealand's heavy transport fleet.

- 4.8. The Ministry of Transport and the Energy Efficiency Conservation Authority should investigate the suitability of specific emissions-reducing technologies for regulating heavy vehicles in New Zealand.
- 4.9. The Government should take steps to amend the pricing system so that a greater share of the external costs associated with private vehicle use are internalised. For example, the Government should continue to work with councils to enable and encourage the use of road pricing tools to reduce congestion and emissions in main urban centres. It should also investigate the potential for a comprehensive network pricing of road use through an expanded Road User Charges system.
- 4.10. The Government should make emissions reductions an ongoing strategic focus in transport investment and broaden the scope of the Government Policy Statement on land transport to cover the whole land transport system.

Out of scope



The Commission cautions against having a legislated end-date to the import of fossil-fuelled light vehicles

18. Although there is a strong level of alignment between the Commission's transport recommendations and the direction being progressed in government, a key difference is the strength of the signal the Government provides about the phase out of the import of fossil-fuelled light vehicles. On the instruction of Minister Genter, we are progressing an initiative to regulate an end-date of 2035 to the import of light vehicles that are unable to be driven without fossil-fuels.
19. In its inquiry, the Commission asked people to comment on whether New Zealand should commit to phasing out the import of fossil-fuelled vehicles. Submitters' views on this question were mixed.
20. In the report, the Commission acknowledges that there is value in the Government clearly communicating the need to shift to a low or zero emissions fleet. It suggests that this could be done by publishing a long-term policy target, such as specifying a percentage of vehicles entering the fleet to be very low or zero-emitting.
21. However, the Commission cautions against making a strong commitment like legislating an end-date. This is because such a commitment could disincentivise the development of drop-in biofuels, which are able to completely substitute for fossil-fuels. It would also restrict the import of other internal combustion engine technologies that may be important for uses where EVs may be less suitable. The impact of inadvertently discouraging these technologies is that the cost of transitioning to a low-emissions fleet could be increased.
22. There is also the risk inherent in a legislated end-date of picking the wrong year. Such a year would be where the range of low emission vehicles is still not as wide as for conventional vehicles, and the upfront purchase costs are still higher. In this situation, a legislated end-date would increase the price of vehicles, causing:
 - 22.1. costs to rise for businesses and households. Low-income households would be impacted most heavily, as they spend a greater share of their income on transport

22.2. people to hold onto their existing fossil-fuelled vehicles for longer. Where the vehicles are high emitting ones, the goal of reducing carbon emissions would be hampered. As would the goal of improving road safety through the entry of safer vehicles into the fleet.

23. The Commission informed us that one of the new vehicle distributors is of the view that New Zealand will almost certainly face constraints in EV supply. This is because its parent company will be focusing its EV supply on gaining market share in China. Gaining a significant share of the Chinese market is much more important than servicing a tiny market like New Zealand.

There would be some advantages in having a non-binding target rather than a legislated end-date

24. These risks are real and warrant a consideration of whether it would be preferable to pursue a non-binding target rather than a binding legislated one.
25. The key advantage of a non-binding target is that it would clearly signal the long-term direction of change while avoiding the above risks. It would also raise awareness about low emission vehicles and give a degree of confidence to consumers and vehicle suppliers to opt for them earlier. It would also increase industry and public acceptance of the need to introduce initiatives like the vehicle fuel efficiency standard and the feebate scheme.
26. A non-binding target or legislated end-date could be supported by interim targets. If the vehicle fuel efficiency standard were implemented, this would effectively set interim targets for emissions reduction for vehicles entering the fleet. The first standard would have a proposed fleet-wide emissions target of 105 grams CO₂ per kilometre by 2025¹.
27. The intention is that the emissions target in the vehicle fuel efficiency standard would be reset to drive change. This would occur so that a second target would apply from 2025, and a third from 2030 or earlier. The targets would become increasingly stronger to move the market to a point where the vehicles entering the fleet have a low level of emissions by 2035.

The Ministry prefers a legislated end-date if the risks can be mitigated

28. However, in the Ministry's view a legislated end-date is preferable to a non-binding target as long as its risks can be mitigated. The key disadvantage with a non-binding target is that it would communicate intent, but it would provide less certainty of change.
29. In contrast, a legislated end-date would enhance the credibility of New Zealand's carbon mitigation efforts internationally, and domestically it would maximise the momentum for change by:
- 29.1. communicating the reality to New Zealanders that substantial reductions in transport emissions are only possible if people shift to low emission vehicles, or low emission modes. This is because the travel done in light vehicles accounts for 67 percent of transport emissions
 - 29.2. giving greater confidence to vehicle suppliers and consumers to opt for low emission vehicles earlier rather than later. Achieving an earlier move is important to reduce the

¹ As noted in the Appendix of the draft cabinet paper on the cross-government low-emissions vehicle work programme

number of conventional vehicles entering the fleet with their emissions locked-in for around 20 years

- 29.3. giving greater confidence to energy suppliers to invest in EV charging infrastructure, encouraging them to keep up with the level of EV uptake rather than waiting to respond to excess demand.
30. A legislated end-date would also remove the risk of New Zealand becoming a left-over market for fossil-fuel vehicles. This risk is pronounced in New Zealand because around half of the vehicles entering the fleet each year are used imports.
31. The used sector differs from the new sector in that it tends not to be affiliated with any one particular vehicle brand and its supply decisions are more driven by considerations of vehicle cost. As well as vehicle cost, the new sector has a broader range of factors to consider in its decisions. New vehicle distributors have ongoing vehicle brand reputations to maintain in the market. They also have programmes of vehicle model updates and new model releases to manage.
32. The heightened cost motivator in the used sector makes New Zealand more vulnerable to being a dumping ground for left-over, high emitting vehicles should there be a glut of used fossil-fuel vehicles available on the global market. This could occur as countries progressively move to low and zero emission vehicles in their fleets.

How could we mitigate the risks identified by the Commission?

33. In our view, the risks identified by the Commission could be mitigated by:
 - 33.1. reviewing the desirability of the legislated end-date prior to it coming into effect, for example, in 2030. This review would examine whether there is any reason to delay the end-date to avoid imposing significant costs on the economy. For example, if the price of low emission light vehicles had not fallen significantly relative to conventional vehicles, or if the range of low emissions vehicles available to consumers remains limited
 - 33.2. ensuring the wording of the legislated end-date does not discourage the development and use of alternative fuels. For example, this could be done by making it clear that vehicles that are viewed as being able to be driven without fossil fuels includes alternative fuel vehicles, like hydrogen fuel-cell, and conventional vehicles where drop-in biofuels are available in New Zealand.

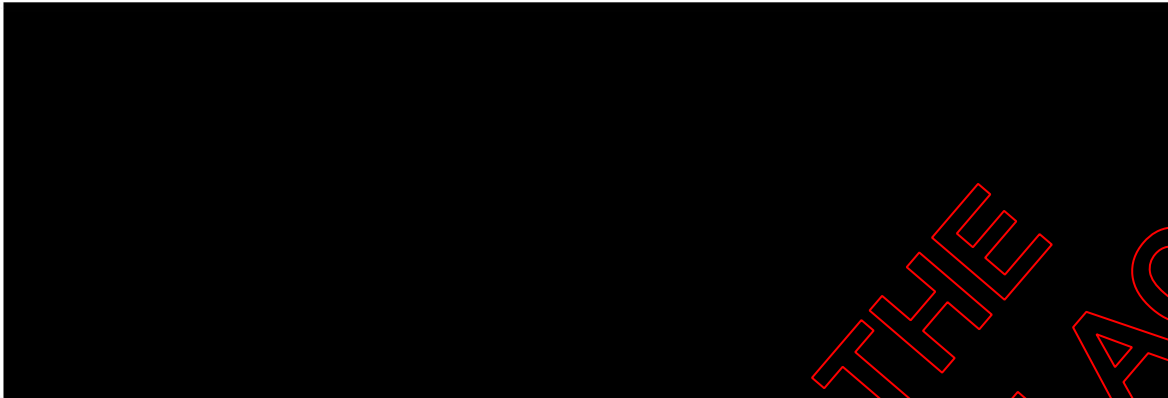
Out of scope



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Recommendations

37. The recommendations are that you:



Out of scope

- (d) note that the Productivity Commission cautions against having a legislated end-date to the import of fossil fuels because it risks increasing the cost of transitioning the vehicle fleet, and instead suggests using a non-binding target to signal the long-term direction of change
- (e) note that the Ministry prefers a legislated end-date because it will achieve a greater level of change and we consider that the risks identified by the Commission can be mitigated
- (f) advise the Ministry whether you would prefer to progress a non-binding target or a legislated end-date in the low-emissions vehicle package.

Yes/No

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Manager, Urban Development and Environment

MINISTER'S SIGNATURE:

DATE:

Appendix - Proposed cross government low-emissions vehicle work programme

Increase EV uptake

Investigate
regulating an end
date of 2035 to
the import of
fossil-fuelled
vehicles

Out of scope

Out of scope

Out of scope

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