

VEHICLE FUEL ECONOMY STANDARD - REPORT BACK

Proposal

1. As directed by Cabinet in February 2009 [CAB Min (09) 6/5B refers] this paper reports back on whether a regulated vehicle fuel economy standard (VFES) should proceed.

Background

1. Emissions of greenhouse gases from the transport sector, particularly carbon dioxide (CO₂), have been rising steadily since records began, reflecting the growth in the size of our vehicle fleet, both in absolute numbers and an increase in the number of vehicles per person. In the absence of intervention, CO₂ emissions from the transport sector are expected to continue to rise. Projections by the Ministry of Economic Development are that by 2030 emissions will increase by between ten and thirty five percent compared to 2007 levels, depending on economic conditions¹. One of the obvious tools available to governments to reduce CO₂ emissions over the longer term is to improve the fuel consumption of vehicles entering the fleet.
2. With the exception of Australia, which has a voluntary agreement, virtually all developed countries have schemes in place to regulate and improve the average fuel economy of vehicles entering their fleets. Two broad approaches have been used to achieve this. Policies either provide customers with incentives to purchase more fuel efficient vehicles, or they require vehicle companies to manufacture or sell more efficient vehicles through some form of averaged CO₂ or fuel economy standard. Most developed countries have used a combination of these two approaches.
3. Unlike other countries though, both New Zealand and Australia have agreed to include transport fuels into their Emissions Trading Schemes (ETS). This creates an economic incentive to use energy more efficiently.
4. In October 2006, Cabinet noted that “establishing a vehicle fleet sales-weighted standard for fuel economy would spread the incentive to improve fuel consumption across all vehicles in the fleet, as well as provide flexibility to the industry and choices to consumers”. Officials were directed to work with industry on “options for a regulated sales-weighted standard” [CBC Min 06 17/18 refers].
5. In December 2007 Cabinet considered a paper which set out initial policy proposals for a regulated VFES, along with a draft discussion document [CBC Min (07) 27/13 refers]. The discussion document, *Improving the fuel economy of vehicles entering the New Zealand fleet*, was approved and released in January 2008. Three options to meet the previous government’s target of an average fuel economy of 170g CO₂/km by 2015 for light vehicles entering the fleet were discussed. The paper agreed that

¹ In 2008, for the first time ever, transport CO₂ emissions fell by 4.4% over 2007 levels. This reduction was largely because people drove less as result of higher fuel prices and poor economic conditions.

officials should report back to Cabinet on final implementation recommendations following consultation.

6. In 2008 Ministry of Transport officials carried out extensive consultation with vehicle importers, especially new vehicle importers. In response the Motor Industry Association (MIA), which represents the new vehicle importers, developed its own unique proposal to implement a regulated VFES.
7. Following consultation, a final draft of a regulated VFES was developed. Its design responded to the complex nature of vehicle imports into New Zealand² and to requirements set out by the previous government. The resulting approach would have been complicated to implement and potentially had high compliance costs. An independent cost-benefit analysis found that under most scenarios, costs would have outweighed the benefits from this specific scheme.
8. Depending on the assumptions made about how consumers take account of fuel savings currently, the overall cost benefits of the scheme by 2025 ranged from over \$900 million as a net cost to approximately \$240 million as a net benefit. Because the preferred option used a tradable permit scheme, the direct impact on vehicle price would have depended on market reactions, but estimates ranged from a \$400 decrease in price for a small fuel-efficient car to a \$1,500 increase for a large less efficient 4WD.
9. The outcomes from consultation on the discussion document were discussed with Ministers in mid-2008. After consideration, the Ministers requested further consultation with the MIA on parts of their proposal and further research on the likely costs and benefits of a regulated VFES. The proposal for a regulated VFES was therefore not considered by Cabinet, despite Ministers' requests for further consultation and research, at that time.
10. In January 2009, as part of the suite of recommendations contained in the "*Regulatory Review Programme: Immediate Removal Of Inefficient And Superfluous Regulation*" paper prepared for the Hon Rodney Hide, I was invited to obtain the views of the Climate Change Minister on whether a regulated Vehicle Fuel Economy Standard (VFES) should be progressed [CAB Min (09) 6/5B refers].

Comment

11. I have now had an opportunity to have discussions with my colleagues, particularly Hon Dr Nick Smith, on the option of implementing a fuel economy standard at the present time.

² Unlike other countries which generally have a small number vehicle importers and manufacturers and accept vehicles built to only one type of standard, New Zealand accepts vehicles that are certified to several different and incompatible fuel economy standards. In addition a substantial part of the annual vehicle registrations are used vehicles that are imported by more than a thousand small companies and private citizens.

We noted that:

- there has been considerable upheaval in the global car market since the original Cabinet decision in 2006
 - transport fuels will be included in the ETS, which is the key plank of New Zealand's domestic climate change policy response
 - there has been a voluntary trend towards the purchase of smaller vehicles, especially in the new car market, at least partly triggered by the high fuel prices in 2008, although the current rate of improvement is not enough to reach the 170g/km CO₂ by 2015³ target set out in the NZ Energy Efficiency and Conservation Strategy
 - a regulated VFES had the potential to increase costs for the vehicle retail sector, which is already struggling with the current economic conditions. It may also have the perverse effect of lowering new vehicle sales and increasing the average age of the fleet, with a potential negative impact on the fuel economy of the fleet.
 - vehicle fuel economy labelling was introduced in 2008 for all post-2000 light vehicles. Consumer surveys undertaken by Nielsen show that fuel economy labels are having a positive impact on vehicle purchase decisions
 - the Ministry of Transport is developing a safe and fuel efficient driving education programme for commercial vehicle fleets
 - Cabinet has agreed to an exemption from Road User Charges (RUC) for electric vehicles until 2013 to encourage their uptake [CAB Min (09) 19/7 refers]
 - Cabinet has also recently announced grants for biodiesel production in New Zealand that complement the excise duty incentive that is already in place for bio-ethanol [EGI Min (09) 5/4 refers].
12. Because of the additional measures described above, I do not propose to carry out further work on a regulated VFES. I have, however, asked officials to look at how we might ensure that we are able to take advantage of low CO₂ transport options, such as electric vehicles, as they become available.
13. Since the release of the discussion document and the subsequent submissions there has been no further public update on the progress of this initiative. I have received requests for advice from the MIA on the status of the proposals as their members need certainty to plan future imports.
14. If you agree with me that no further work is to be carried out on a regulated VFES at this time, I intend to release a short media statement to the public and motor industry explaining our current position.

³ See Annex 1 for graphs of recent fuel economy trends.

Consultation

15. The following departments and agencies have been consulted in the preparation of this paper: Ministry of Agriculture and Forestry-Biosecurity, Ministry for the Environment, Energy Efficiency and Conservation Authority, NZ Transport Agency, Ministry of Economic Development Ministry of Foreign Affairs and Trade, Ministry of Social Development, New Zealand Customs Service, and the Treasury.
16. Te Puni Kōkiri and the Department of Prime Minister and Cabinet have been informed of this paper.

Financial and legislative implications

17. There are no financial or legislative implications arising from this paper. New legislation would have been required to implement a regulated VFES.

Human rights, and gender implications and disability perspective

18. There are no human rights or gender implications, or disability issues arising from this paper.

Regulatory Impact Analysis

19. A regulatory impact analysis is not required.

Publicity

20. A media release will be required.

Recommendations

21. It is recommended that the Committee:
 - 1) **Note** that New Zealand and Australia have agreed to include transport fuels into their Emissions Trading Schemes (ETS) and that this will create an economic incentive to use energy more efficiently;
 - 1 **Note** that there are already a number of other initiatives that the government is proposing that are likely to encourage a trend towards the purchase of smaller and more fuel efficient vehicles;
 - 2 **Note** that because of the current economic situation it is not desirable to increase the costs for importers and purchasers of vehicles at this time;
 - 3 **Agree** that no further work should be carried out on a regulated Vehicle Fuel Economy Standard (VFES) at this time;
 - 4 **Note** that officials will continue to consider how we might take advantage of low CO₂ transport options as they become available;
 - 5 **Note** that no formal statement has been made on the status of the VFES since consultation started in early 2008 and that the Motor Industry Association,

among others, has requested advice on the scheme's status so that the vehicle importers can plan their ongoing business; and

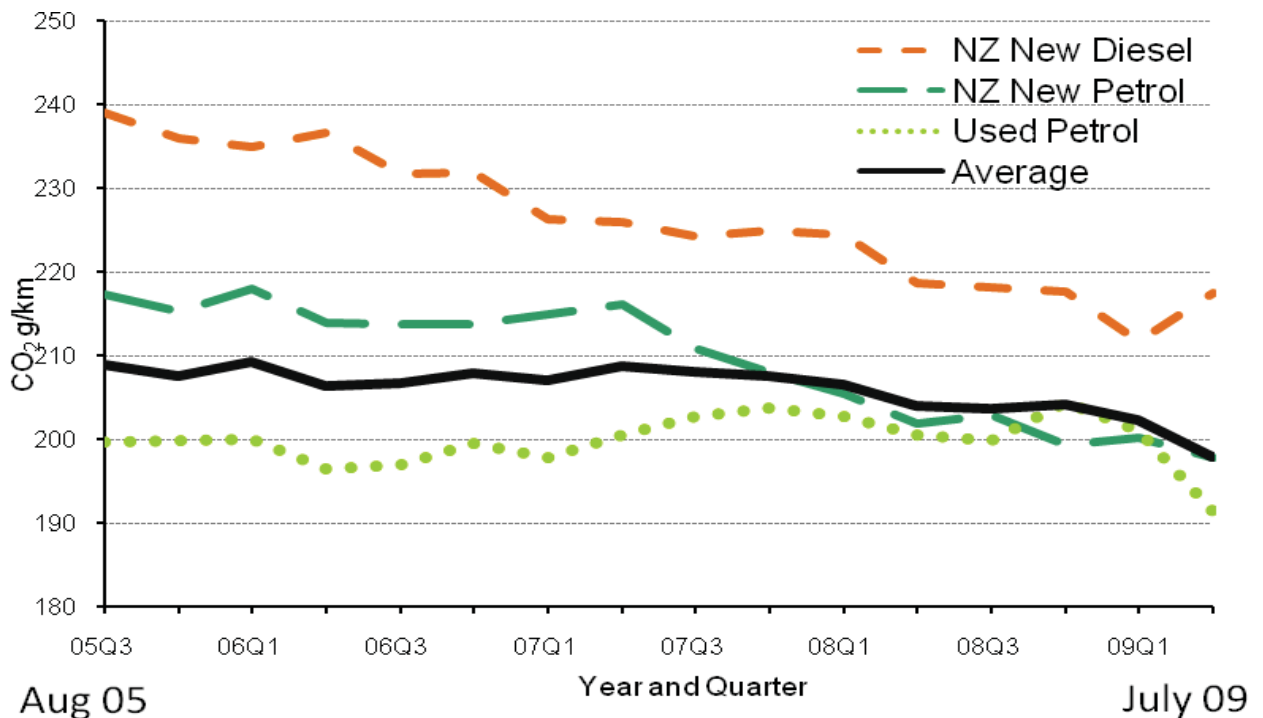
- 6 **Agree** that a media release should be issued informing the public and the motor industry of the current position following cabinet's decision.

Steven Joyce
Minister of Transport

Dated: _____

Annex 1:

Fuel economy of vehicles entering the New Zealand fleet 2005 - 2009



Note: For technical reasons it is not possible to display the fuel economy of used-diesel vehicles.

Source: <http://www.transport.govt.nz/research/QuarterlyVehicleFleetStatistics/>