October 2012

Reducing Emissions from Non-Road Spark Ignition Engines and Equipment Regulation

Consultation Regulation Impact Statement

CONSULTATION SUMMARY REPORT

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Background

On 25 May 2010, the then Environment Protection and Heritage Council released the Reducing Emissions from Non-Road Spark Ignition Engines and Equipment Consultation Regulation Impact Statement (Consultation RIS) for public comment.

Non-road spark ignition engines and equipment (NRSIEE), particularly conventional two stroke engines contribute to urban air pollution and are high polluters relative to their engine size and usage. NRSIEE include:

- Small engines used in a range of domestic and commercial applications such as gardening equipment, generators, construction, farm and industrial equipment (because the bulk of these engines are used in gardening applications these will be referred to as garden engines), and
- Marine engines including outboard engines, personal watercraft and inboard and sterndrive engines.

The NRSIEE Consultation RIS examined whether there was a case for government action to reduce adverse impacts of non-road spark ignition engines and equipment on human health and the environment. The Consultation RIS identified the need for government action and considered management options for delivering emission standards for non-road spark ignition engines and equipment. Following an initial assessment, three management options were considered viable to deliver national emission standards:

- A voluntary industry agreement (outboard engines only)
- Commonwealth regulation
- National Environment Protection Measure (NEPM).

Within these options, scenarios were considered in which standards would be implemented in either a phased or a non-phased approach.

The Consultation RIS identified the preferred approach as "the adoption of US emissions standards in force at the time regulations are implemented in Australia (i.e. a non-phased approach), through Commonwealth regulation, with regulations to take effect as soon as practicable". For the purpose of seeking stakeholder views, the Consultation RIS proposed the introduction of standards from 2012.

In addition to the issues raised in the Consultation RIS, views were sought on the following specific issues:

- What are impacts to manufacturers and distributors of meeting US Final Rule standards through a phased approach in comparison with a non-phased approach?
- What is the likely impact of adopting US emission standards on consumer choice for each type of relevant product, i.e., if US standards were adopted, which products would be removed from the market?
- What is the likely impact of adopting US emission standards on the purchase price for each type of relevant product?

- What is the likely impact of adopting US emission standards on consumer demand for each type of relevant product?

During the initial consultation period (25 May – 27 July 2010), a consultation session was held in Melbourne that was attended by about 40 stakeholders. The closing date for written public comment was 27 July 2010. A total of 86 submissions were received in response to the Consultation RIS.

Further consultation was conducted in 2012 to target key stakeholders who were not well represented in the original submissions and may be impacted by the options in the Consultation RIS. Recreational fishers were the primary focus for this consultation as their views were notably absent from the earlier submissions. An additional six submissions were received.

During the additional round of consultation in 2012, updates were sought on some of the earlier submissions. The National Marine Safety Committee subsequently withdrew its submission as they considered that their earlier concerns may not be relevant in 2012. From the 91 remaining submissions 10 were provided as commercial-in-confidence.

This report provides a summary of the key messages arising from the submissions. It is an overview of the main matters that were raised by the public regarding the Consultation RIS and should be read in conjunction with that document.

Methodology

Individual submissions were analysed to identify views on the options presented in the Consultation RIS and the main issues raised. The responses were classified according to the stakeholder group they represent to help analyse the broad range of positions and opinions expressed in the submissions.

More than half of the submissions received were based on a campaign letter raising similar concerns. The views expressed in these submissions are included in the discussion throughout this document. For clarity, and to ensure they do not overwhelm other views provided, they are referred to as form letter submissions and the remaining submissions are referred to as independent submissions.

This report discusses the views expressed in the submissions in the following categories:

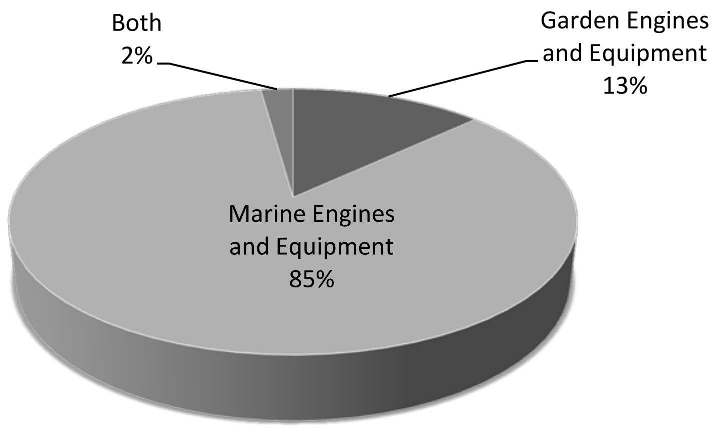
- Timing
- Averaging, Banking and Trading (ABT)
- Exemptions
- Pricing and Consumer Demand
- Technical Issues

A list of public submissions is also presented at the end of this report, identifying the stakeholder categories to which the submissions belong.

Summary

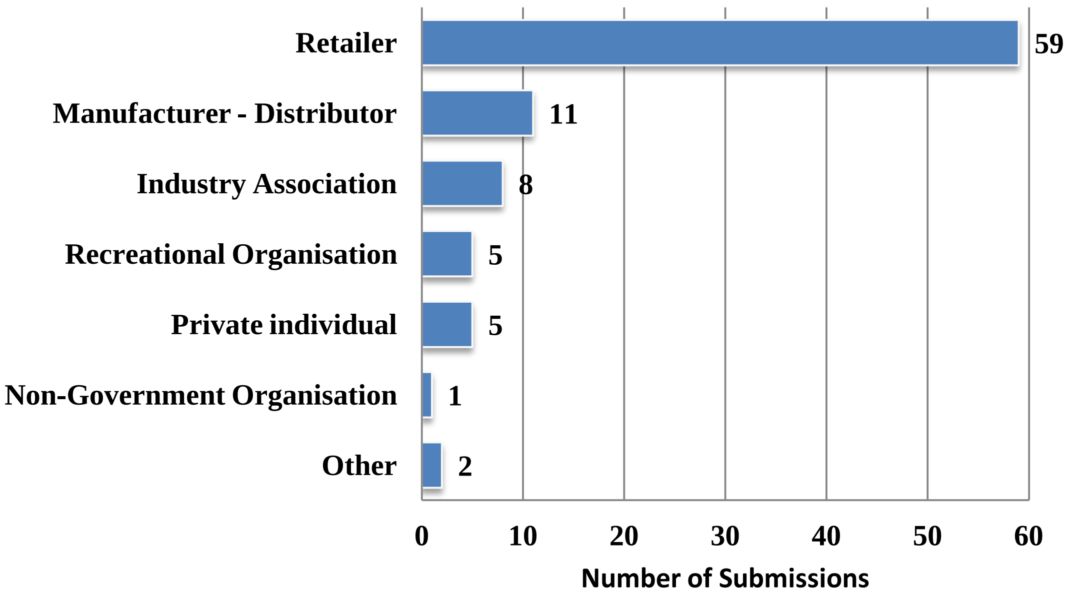
Of the two categories of non-road spark ignition engines and equipment, submissions were largely focussed on the marine engine sector. Figure 1 shows that 85 per cent of submissions relate to the marine engine sector and 13 per cent refer to the garden sector.

Figure 1: Submissions by engine category



Submissions were mainly received from industry stakeholders. The distribution of submissions by stakeholder type is represented in Figure 2. As can be seen, a large proportion of submissions represent the views of retailers. However, fifty submissions were based on a form letter and the vast majority of these were from boat builders and sellers included in the retailer category.

Figure 2: Submissions by stakeholder type



Overall the submissions were supportive of government action to reduce emissions from NRSIEE. However, there were diverging opinions regarding the timing of the implementation of full regulation, with some respondents preferring a phased approach, while other respondents favoured immediate regulation.

Only one submission stated a preference for no government intervention, while another three do not provide a clear statement on their preferred action. One submission supported the voluntary outboard industry agreement option with no other government action.

Of the submissions which were supportive of regulated emissions standards, none specifically mentioned whether implementation should be in the form of Commonwealth regulation or a NEPM. Comments were largely focussed on the stringency and timing of standards and the impacts that could result from the implementation of emissions standards.

Given that submissions largely related to the introduction of emissions standards through regulation, which is the focus of the following sections of this summary.

Timing

As noted earlier, for the purpose of seeking stakeholder views the proposed implementation approach included:

- a non-phased approach, i.e. adopting the standards in place in the US at the time of implementation, as opposed to a phased approach which would involve implementing less stringent standards first and then moving to the current US standards after a few years
- the introduction of standards from 2012.

Among the reasons put forward in support of a delay to regulation was the justification that some aspects of the final US standards, for example evaporative emissions standards and transition provisions, will be phased in through to 2015 for the marine sector, and 2016 for the garden sector. Submissions argue that the adoption of US emissions standards from 2012 would mean that Australia effectively had more stringent standards than those in place in the US.

Submissions from industry stakeholders represented two opposing viewpoints – those that advocated implementing standards in Australia as soon as possible and those that favoured a delay. Within the marine sector there was a distinct division in views with some submissions seeking implementation of regulation as soon as possible and others requesting a delay to ensure industry has time to adjust to new standards. The garden sector largely supported implementation of standards along the same timelines as those in the US.

Those industry submissions which supported the non-phased approach being introduced from 2012 argued that a full range of low emission engines are already available in Australia and, for some engine categories, in the absence of regulation these engines continue to face competition from cheaper, higher emitting engines. Further, the submissions stated that delays would continue to cost the Australian community in terms of environmental and health outcomes. A few submissions from the marine sector stated that Australia needs to move in the direction of world’s best practice and that overseas experience has shown that regulation of emissions does not lead to a collapse of the marine engine industry rather that sales were more affected by the global and local economy.

Some manufacturers and distributors argued that lead time is required when determining the model mix and volume of product imported into Australia. Lead times stated in marine sector submissions ranged from 3 months to 24 months, while in the garden sector a lead time of 12 to 18 months was stated.

Marine engine sector submissions raised concerns that boat builders in Australia will not have sufficient time to source appropriately certified components or re-engineer the boat-fuel systems if regulations are implemented in 2012. Concerns were also raised regarding short transition time to the introduction of standards requiring the use of catalysts in sterndrive and inboard engines.

Non-industry submissions which commented on timing tended to support the approach proposed.

Averaging, Banking and Trading

The preferred option put forward in the Consultation RIS does not include averaging, banking and trading (ABT). These provisions in the US emission standards enable engine/equipment manufacturers to average exhaust emissions across engine families within their product lines and to accrue credits for engines that outperform emission standards which can be used to offset worse-performing engines in subsequent years. They may also trade credits with other manufacturers.

Some industry stakeholders in both the marine and garden sectors support the inclusion of either averaging of full ABT provisions in Australia. Of the 42 independent submissions, 14 are supportive of averaging and/or ABT, 8 are not, and 20 do not provide comment. In addition, the form letter submissions from boat builders and sellers support these provisions.

Supporters of ABT provisions argue that some flexibility is required to meet these new regulations as is recognised by the US EPA in implementing ABT provisions. They claim that ABT would not result in large numbers of high emission engines being “dumped” in Australia.

A number of submissions proposed a similar approach to that in place in Canada where engines certified under ABT provisions in the US are accepted. They assume that under such an approach the model mix imported into Australia will be similar to that sold in the US.

The submissions which opposed the inclusion of ABT were almost exclusively from marine industry stakeholders. As with timing of regulation, there is a division in opinions within marine engine manufacturers and distributors as to whether ABT should be applied. The group that does not support the inclusion of ABT argues that these provisions are not required as engines complying with emission standards are already available. These submissions suggest that ABT may benefit existing manufacturers at the expense of new entrants to the market and therefore discourage innovation. One submission goes on to state that most 2010-2011 model year outboards engines on the US market could meet the US EPA emission standards without utilising ABT.

Exemptions

While the Consultation RIS made no mention of exemptions from standards for specific engine types or uses, this issue was raised in 19 independent submissions. These submissions were largely from industry stakeholders.

Within the marine sector there are divided views on the application of exemptions. Some submissions support exemptions under specific circumstances only, on the basis the broader exemptions would undermine the benefits of implementing standards. The specific exemptions suggested include:

- preproduction, racing, and research and development engines (as allowed by the US EPA),
- outboards associated with tenders on visiting ships, those used in military applications and by the Australian Surf Life Saving Association.

Other marine sector submissions support more general exemptions in addition to those listed above. These exemptions would be aimed at groups such as Indigenous communities and "grey nomads". They state that as 2-stroke outboards (which could not meet emission standards) are cheaper, lighter and easier to service they are more suitable for these groups.

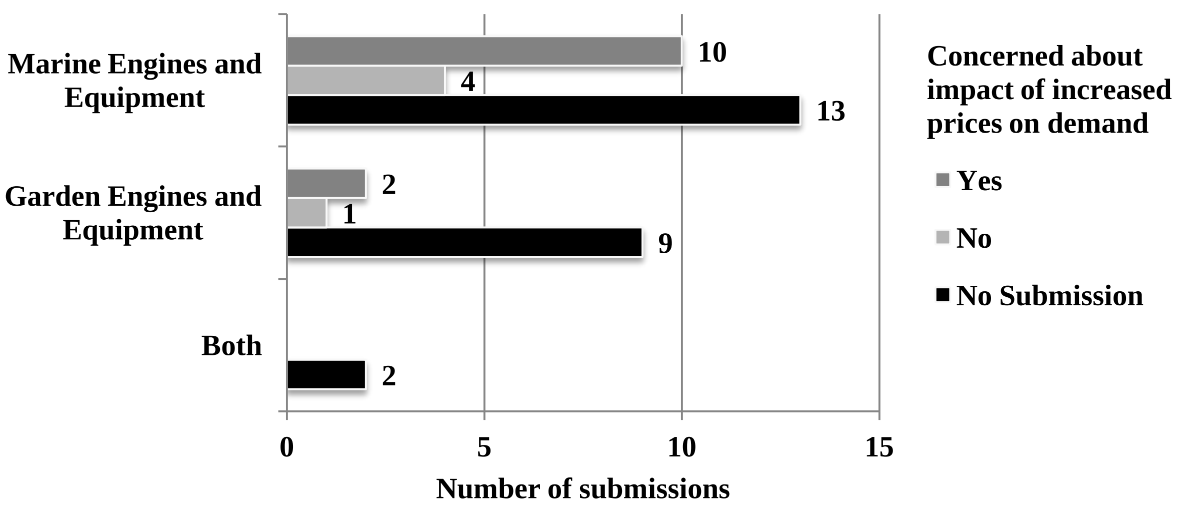
Half of the garden sector submissions expressed support for limited exemptions for special purpose or niche market products which have either very low sales volume, a lack of alternatives or are used in specialist applications. The remaining garden sector submissions made no comment on exemptions.

Pricing and Consumer Demand

In addition to the issues raised in the Consultation RIS, comment was sought on the impacts that emission standards would have on the price and the range of engines available in Australia.

As shown in Figure 3 below, the impact of increased engine/equipment prices on consumer demand was a concern more commonly expressed in marine sector submissions. In addition to the independent submissions included in the figure, the submissions based on the form letter also provided views on these issues.

Figure 3: Price increases likely to impact consumer demand (independent submissions)



While the vast majority of comment was from industry stakeholders, the potential for unjustifiably higher prices was raised by two recreational fishing organisations. These organisations accept that the low emission outboards have higher purchase prices; however, they are concerned that price increases passed on to consumers may not reflect the actual costs to the manufacturers, importers and retailers.

The Consultation RIS claimed that, on average, outboard engines that comply with emission standards cost around $3000 more than non-compliant engines. A number of submissions agreed that this was representative. They went on to state that the bulk of the costs will be borne by the small horsepower market segment and were concerned that replacement of these motors with compliant models will prove too costly for many first-time buyers, or those seeking to replace aging motors.

One submission claimed that a sales drop of 10 to 20% in the first year of regulation was likely based on experience in other regulated markets. The marine engine sector submissions based on the form letter expressed concern that emission standards will add cost to their products, may result in a loss of jobs, and may reduce the range of available product.

Several submissions contested the price increase put forward in the Consultation RIS, stating that considering the mix of engines in the marketplace it is closer to $1200-$1500. Furthermore, they suggest that price increases should be measured as a proportion of the price of the “package” (made up of the boat, engine and trailer), not solely on the engine. They believe that the value of the Australian dollar will have a more potent influence on consumer demand for outboard engines than the introduction of emission standards.

Engine weight

Six independent submissions from the marine sector express concerns regarding the potential impacts associated with the difference in weight between 2-stroke and 4-stroke outboard engines of the same horsepower, particularly in the less than 25 horsepower category. The issues they raise include:

- The weight of replacement engines (when replacing a 2-stroke with a 4-stroke engines) may be greater than the design specifications of the transom and/or boat, and
- Manual handling issues.

These respondents, as well as the marine engine sector form letters, suggest that boat builders and dealers need additional time to accommodate these changes. Four independent marine sector submissions state that this is not an issue, while the remaining 18 marine engine respondents make no comment at all.

List of public submissions

The 81 public submissions are listed below. The ten commercial-in-confidence submissions are not recorded. Publicly available submissions may be found at: http://www.scew.gov.au/archive/air/spark-ignition-submissions.html

RESPONDANT	Type of Respondent	Engine Sector
ABC Marine	Retailer	Marine
Adelaide Shores Marine	Retailer	Marine
Andrew Ettingshausen	Private individual	Marine
Anthony McEnnally	Retailer	Marine
Australian National Sportfishing Association	Recreational organisation	Marine
Boat Industry Association of NSW	Industry association	Marine
Boat Industry Association of Victoria	Industry association	Marine
Boatland Winnellie	Retailer	Marine
Briggs & Stratton Australia	Manufacturer - Distributor	Garden
BWW	Manufacturer - Distributor	Marine
Carnarvon Tackle & Marine	Retailer	Marine
Challenge Marine	Retailer	Marine
Christies Beach Marine	Retailer	Marine
Cove Marine Pty Ltd	Retailer	Marine
Croydon Marine	Retailer	Marine
Cummins South Pacific Pty	Manufacturer - Distributor	Garden
Davey Water Products Pty Ltd	Retailer	Garden
Disco Marine	Retailer	Marine
Dolphin Marine	Retailer	Marine
Don Burke	Private individual	Garden
East Kimberley marine	Retailer	Marine
Eildon Outboard Service	Retailer	Marine
Empire Bay Marina	Retailer	Marine
Engine Manufacturers Association (US)	Industry association	Garden
Geoff Newman	Retailer	Marine
Grahame Williams	Private individual	Marine
Hastings Marine	Retailer	Marine
Hi Tech Marine	Retailer	Marine
Hurreys Marine	Retailer	Marine
Innisfail Marine	Retailer	Marine
Insinc Marine	Retailer	Marine
Inverloch Marine	Retailer	Marine
Joshua Smith	Retailer	Marine
Ken Evans Consulting	Other	Marine
Lakeside Marine	Manufacturer - Distributor	Marine
Lee Hunt Director	Retailer	Marine
Lindsay Raymond	Retailer	Marine
Manning River Marine	Retailer	Marine
Mannum Engine Centre	Retailer	Marine
Marine Tune	Retailer	Marine

RESPONDANT	Type of Respondent	Engine Sector
Mark Wilson	Retailer	Marine
Maynes Marine	Retailer	Marine
Mercury marine and Brunswick Corporation	Manufacturer - Distributor	Marine
Meridien Marina - Onshore Marine	Retailer	Marine
Merimbula Outboard Service	Retailer	Marine
Midcoast Marine Inflatables Pty Ltd	Retailer	Marine
Midway Marine	Retailer	Marine
Millard Marine	Retailer	Marine
Motor Marine	Retailer	Marine
Noosa Cat Australia Pty Ltd	Retailer	Marine
Northside Marine	Retailer	Marine
Nowra Marine	Retailer	Marine
OEDA	Industry association	Marine
OPEA	Industry association	Garden
Outdoor Power Equipment Institute (US)	Industry association	Garden
Penrith Marine	Retailer	Marine
Peto Marine	Retailer	Marine
Port Lincoln Boat Supplies	Retailer	Marine
Race Marine	Retailer	Marine
Recfish Australia	Recreational organisation	Marine
RecFishSA	Recreational organisation	Marine
Reibel Marine	Retailer	Marine
Rolco Boats	Retailer	Marine
Russell Cairns Marine and 4X4	Retailer	Marine
Solar City Marine & Caravans Pty Ltd	Retailer	Marine
STIHL Pty Ltd	Manufacturer - Distributor	Garden
Streaker Boats	Retailer	Marine
Sugar City Marine	Retailer	Marine
Surf Life Saving Australia	Non government organisation	Marine
Sydney Powerboat Centre	Retailer	Marine
TARFish	Recreational organisation	Marine
The Haines Group	Retailer	Marine
The Marine Shop	Retailer	Marine
Tim Flannery	Private individual	Both
Volvo Penta Oceania	Manufacturer - Distributor	Marine
Waikerie Motorcycle & Marine	Retailer	Marine
Warren Godson	Private individual	Both
Waves Overseas	Retailer	Marine
Xtreme Marine	Retailer	Marine
Yamaha	Manufacturer - Distributor	Marine
Yorke Peninsula Marine	Retailer	Marine