SUBMISSION

MINISTRY OF TRANSPORT

MOVING THE LIGHT VEHICLE FLEET TO LOW EMISSIONS

THE COLONIAL MOTOR COMPANY LIMITED

20th August 2019

Revised 21/08/2019

Who are we?

The Colonial Motor Company is a 100-year veteran of the New Zealand transport system from horse and carriage to today's most high-tech vehicles. We own and operate vehicle Dealerships stretching from the north to the deep south, over cities, provincial and rural markets, employing over 1,000 people. Our Dealerships represent the full spectrum of motor vehicles including:

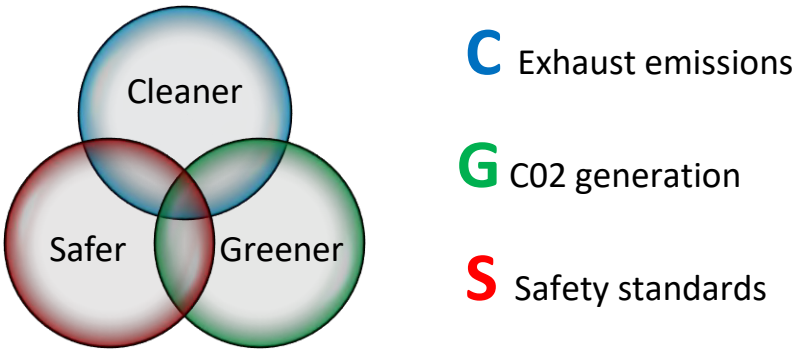
- Cars and light commercials
- Motorcycles
- Heavy trucks
- Tractors

In 2018 we retailed over 16,000 vehicles (11,000 new and 5,000 used). As a company we have survived multiple World Wars, recessions, deregulation, changes to vehicle importing rules and every evolving new technology. We have both survived and thrived due to our ability to adapt to an ever-changing world.

In principle we confirm that we agree with a policy that seeks to

1. Significantly reduce the emissions from transport
2. Improve the quality of vehicles imported into New Zealand
3. Over time reduce the NZ fleets C02 footprint

We feel strongly that for this plan to be successful it must be transparent, simple and have 'buy in' from the consumer. For it to be effective there should be one plan that addresses all the elements:



There is a big push to achieve the utopia of a 'zero road toll' it would therefore make sense to integrate all transport polices into this single plan (CGS). Our vison would see the New Zealand fleet reducing air pollution by moving to the Cleaner Euro 6 tailpipe emissions. Greener vehicles that produce less CO2 and Safer vehicles through more stringent safety requirements for all vehicles as they enter the fleet. It is clear to us that these three areas should be implemented as part of the wider strategy rather than being considered in isolation.

We believe that to impact our total fleets CO2 emissions will require tackling both:

- The absolute number of vehicles on the road
- The emissions per vehicle

The reality of how we got where we are?

- The vehicle fleet has grown **85%** since 1990 (greenhouse gas benchmark year)
- The population has grown **41%** since 1990

- The growth in the fleet is by far the dominant factor in the growth in total transport (light vehicle) C02 emissions

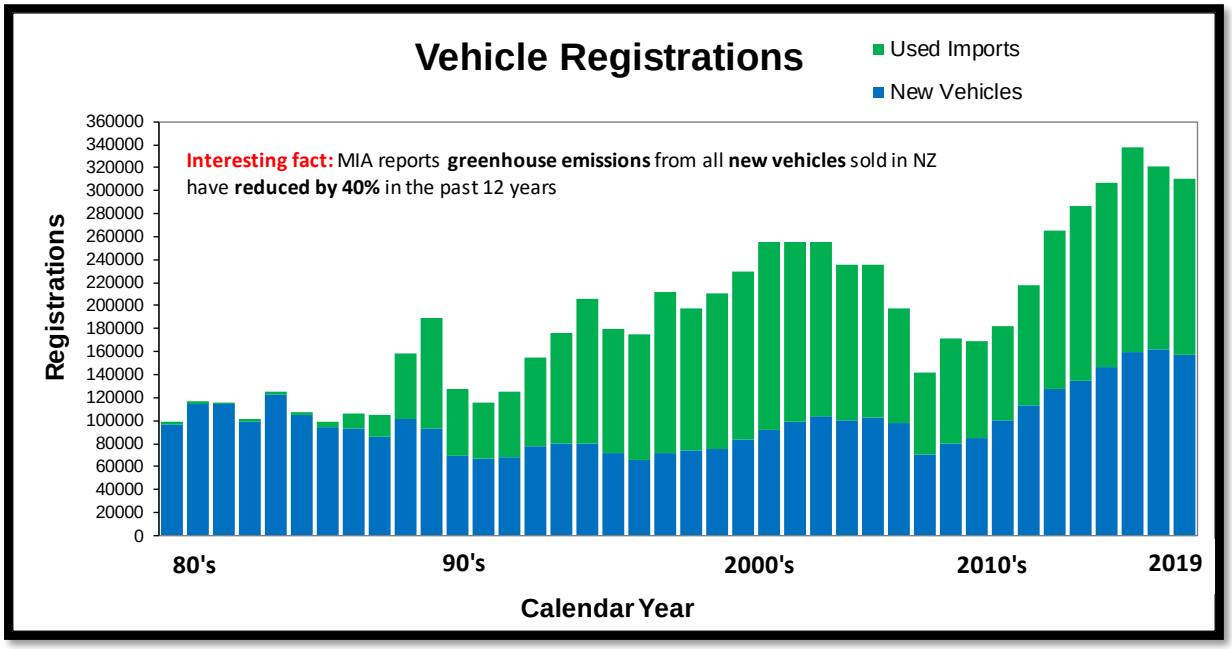
- NZ's per capita vehicle ownership is one of the two highest in the world

- If the number of vehicles per capita had remained at 1990 levels, then the NZ fleet would be in the order of one million vehicles less than it is today.

- The average age of the New Zealand light vehicle fleet is nearing 15 years old

- In Europe the average age is less than eight years old. This enables a relatively fast flow through of new technology benefits compared to New Zealand

Four decades of vehicle imports into New Zealand



- In the 1980's decade used imports made up 10% of vehicle registrations
- In the 1990's and 2000's decades used vehicles climbed to over 60% of vehicle registrations
- In the 2010's decade **used** has **remained** stable at **around 51%** of vehicle registrations

To successfully achieve a **Cleaner**, **Greener** and **Safer** (CGS) fleet the plan cannot disadvantage and therefore, discourage consumers from choosing to purchase **new vehicles**. Steps should also be considered for how to remove older vehicles from the New Zealand fleet (appendix 1) and alternatives to the clean car discount (Feebate) approach are also outlined (appendix 2a).

One framework – Feebate

- **Is the Clean Car Standard appropriate for New Zealand?**
- **Is the Clean Car Discount appropriate for New Zealand?**
  - *Note: the 'why' is addressed in the corresponding discussions on the following pages*

The Clean Car Standard is anything but simple and therefore not an appropriate direction to consider. It fails right out of the gate to directly influence consumers choice. Instead heavily focusing on artificially restricting supply which leads to anomalies, loopholes and a general 'will' to get around the system.

The scheme should offer a one plan solution. From a political and tax payer viewpoint the single feebate solution can be conveyed in net terms as being neither a tax or a subsidy. It should assess every vehicle equally irrespective of who is importing it. The Feebate system combined with vehicle weighting is a superior approach and would be the most effective if it was administered at the vehicles point of entry into New Zealand.

- Transparent
- Simply to understand
- Supported by the consumer ('buy in')

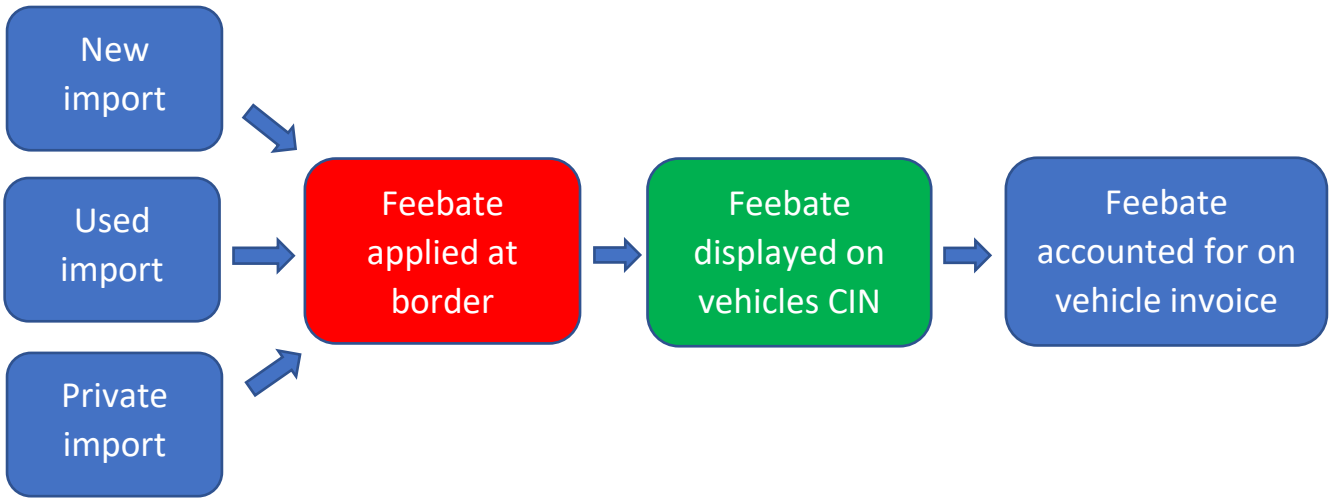
To effectively achieve change, in our opinion the Feebate scheme must include the following components:

- Assesses every vehicle on arrival at the border
- Fee or discount applied based on the weight / CO2 band and paid as part of the import process
- Not allow 'anti-competitive' price fixing through trading of CO2
- Simple to administer with a single point of assessment that minimises compliance costs
- Focuses on consumer choice as a method of influencing supply
- Be clear and obvious to all involved with the 'fee' or 'discount' being displayed on the CIN card and shown on the vehicle invoice to the consumer
- Addresses all vehicles with no exceptions (incl private imports)
- Direct and encourage the market (industry & consumers) to an aspirational but attainable target
- We believe a new technology light or small car of any powertrain (BEV, PHEV, Hybrid, ICE) should be able to fit inside the C02 benchmark level that incurs a 'zero fee'. This is a clear vision and point of understanding for the consumer

Keep the Fee and Discount simple

While there are certainly simpler, but potentially 'politically riskier' avenues that could be considered first (appendix 2a). If a Feebate (discount / fee) was to be introduced the focus needs to be on keeping it simple to understand and easy to comply with. In the interests of simplicity and transparency a move towards a single method of collecting tax revenue for road user charges should be considered as part of the overall direction. See appendix 2b for a discussion on Road User Charges (RUC's).

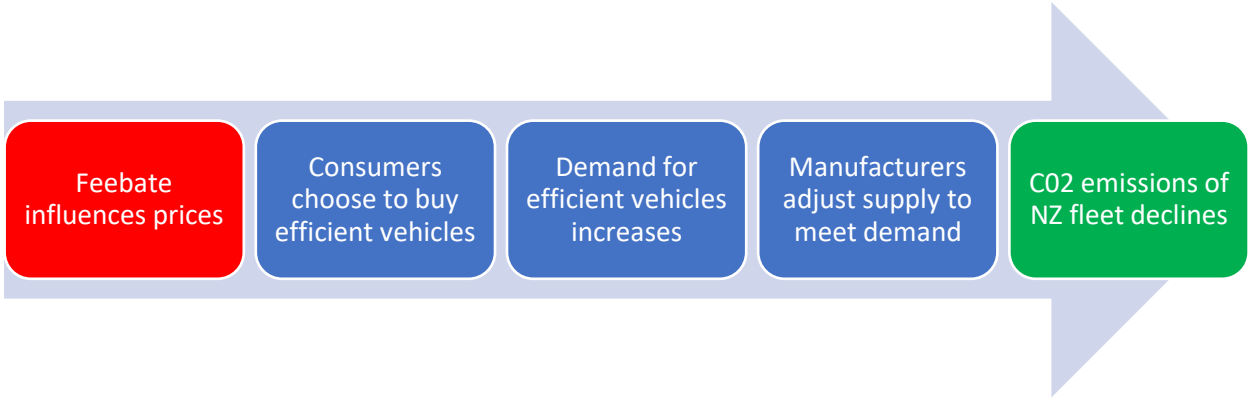
Simple model everyone understands:



All vehicles are assessed against the Standard at the border irrespective of who is importing them and in what quantity (no exceptions). At the point of entry, the feebate is applied onto each vehicle independently, either a fee or a discount depending on the current CO2 standard.

- No vehicles escape as no loopholes are created
- Dealers know before importing a vehicle if it will be eligible for a discount or will incur a fee
- Consumers have transparency when shopping for a vehicle as they can see the fee / discount displayed on the CIN and accounted for in a vehicles invoice, if they choose to buy.

Consumer choice becomes the backbone:



A Feebate system maintains consumer choice. Consumer choice is the single best method of shifting demand and ultimately what vehicles manufacturers, distributors or wholesalers bring into the country. By maintaining consumer choice, the publics trust isn't eroded as they are not being told what they can and cannot buy.

No CO2 trading, no anti-competitive behaviour

The purpose of this scheme is to encourage the public to buy more efficient CO2 vehicles. The chosen method is to increase (fee) or decrease (discount) the price of freshly arrived vehicles. The process is simple, applies to everyone and the consumer has transparency given they can see the Feebate on a vehicles CIN and invoice. Any scheme that allows a feebate to be netted off, traded or hidden confuses the purpose of the scheme and jeopardises its ability to achieve the desired outcome. Confusion, grey areas and the ability for importers to manipulate the system won't result in a system that gains public support or be well received by the businesses that wish to uphold integrity within the industry.

Assume fleet adjustments are allowed:

An importer will start by charging the full fee at the beginning of the year. Near the end of the year the importer can look at their model mix and if they are in surplus can offer an end of year sale. (effectively insulting buyers from earlier in the year). If they did not charge the fee in full at the beginning and then do a balance up later, and are found to be short, could they add a premium at the end of the year? No.

Allowing the scheme to operate with trade-offs in such a disruptive and unregulated way assumes importers have the ability to absorb the tax into their margin. Whereas the concept is to make it influence consumer behaviour, this means it has to be seen to be passed on in full.

Is the average emissions target of 105 grams per C02 per kilometre by 2025 an appropriate target for New Zealand?

105g/km by 2025 is not appropriate for New Zealand because:

It takes no account of our physical environment. New Zealand's topography requires vehicles to traverse hills both up and down and tow payloads across large distances. To draw a comparative example:

- In Europe a heavy truck carrying the same load in tons uses a 380hp engine. To do the same job in NZ the same truck requires 480hp. This is a 25% increase in the power and C02 emissions.
- The same factors apply to light vehicles. It's the hills and their steepness (gradients) that often determine what vehicles are practical to own.

Both Japan (126 million) and Europe (741 million) have the populations to support extensive public transport networks that often operate around the clock. Compare that to New Zealand where our population is scattered in pockets across a country not to dissimilar to the size of Japan.

	Land mass (km2)	Population	Density (ppl/km2)
New Zealand	268,000	4,800,000	18
Japan	378,000	126,000,000	333

New Zealand does not have the population density to support the same level of public transport, nor is it practical to believe we can emulate a country like Japan anytime soon.

The quoted figure for japan includes Kei cars comprising 36.5% of 2018 industry sales. These vehicles are small, under 600cc and are built to a safety standard not compatible with New Zealand.

- Japan also has a much smaller light commercial component focused on vans, and has no towing requirement.

At the minimum the Japanese quoted figure should be re-stated to fit usage/mix appropriate for New Zealand.

A further reality to take into account when setting the target (g/km) is the unintended consequences of New Zealand having become an almost exclusively 'automatic' market due to the influence of used imports from Japan. The New Zealand standard needs to take this factor into consideration when comparing with other jurisdictions i.e. Europe is dominated by small manual vehicles.

Example:

The difference in green-ness is material in terms of vehicle weight and CO2 emissions.

Light car	1.0T Manual	1164kg	97g/km	
	1.0T Auto	1206kg	118g/km	(22% increase in CO2 emissions)

Do you support the timeframe for the phase in period?

As mentioned above, the data used to create the 105g target and the timeframes to achieve it fails to accurately represent the New Zealand environment and is therefore neither aspirational nor attainable. It also greatly over estimates the capability of vehicle manufactures to develop, test and supply new product to New Zealand.

We <u>do not believe</u> the suggested C02 targets are achievable by the year 2025.

However, we do feel the targets suggested can be justified and the weighting system workable but only on the basis the timeframes are moved further out.

- Start point of 2022
- Reset of Feebate discount/fee every three years
- Create a pathway for continuous improvement
- 105g/km target pushed out to 2031

Weight band	**2022**	**2025**	**2028**	**2031**
Up to 1000kg	123	108	95	80
>1000 kg to <= 1200kg	131	116	101	85
>1200 kg to <= 1400kg	146	129	112	95
>1400 kg to <= 1600kg	159	140	122	103
>1600 kg to <= 1800kg	171	151	132	112
>1800 kg to <= 2000kg	187	165	144	122
>2000 kg to <= 2200kg	199	175	153	130
>2200kg	216	190	166	141
Weighted average	**161**	**142**	**124**	**105**

Light commercial vehicles

One of the most critical elements of the Feebate weighting table and timeframe adjustment is that it allows light commercial vehicles to exist. It also provides a realistic pathway for new product to meet stricter C02 standards.

It is important to remember that these vehicles are primarily used in New Zealand's productive sector manufacturing, construction, agriculture and services industries and the available pool of alternative BEV, PHEV and Hybrids vehicles in this category are extremely limited. They are heavier by design as they are required to carry and tow all while covering significant distances every day.

It is our view that if the table above is not considered and/or the weightings not adjusted to fairly represent light commercial vehicles, they should be exempt from the scheme until 2028.

Industry and consumer perspective

The 'zero fee/discount' band should be set for 2022 at the level a small 1000-1200kg car can achieve i.e. 131 g/km. This is a great starting point as it meets the threshold of a range of new vehicles (PHEV, Hybrid and ICE) with Cleaner, Greener and Safer technology coming onto the market.

Setting a new target every year simply does not consider or respect the reality of the life cycle of vehicle models and the ability of manufactures to adapt. While some models do receive regular facelifts a model's lifecycle is typically six years of even longer. Making meaningful changes to a vehicle's engine and powertrain is no trivial undertaking and is only completed during a model change.

To design, construct, test, manufacture and supply a new vehicle globally takes at a minimum five years. By 2025 we will have only seen one additional product cycle. If the aspirational goal is to get a 1000-1200kg car to 85g/km in the hands of the average New Zealander our view is that it will take at least two more new product cycles to get us there. This makes 2031 a more achievable goal the industry can get behind and the public can aspire to at a sustainable cost.

Government perspective

At each adjustment year on the journey (2025, 2028, 2031) the fee/discount structure should be adjusted. The 'zero' level can be reset allowing the average small efficient car (1000-1200kg) to meet the required standards. This sends a consistent message that make targets aspirational and attainable for the consumer. This approach would be consistent with the end goal retaining consumer confidence and support for the scheme.

Every year in January or February the ministry would be able to report to the public the progress against the targets by reporting the weighted average emissions (CO2) for all the vehicles that arrived in the country the previous year. This could be further broken down by new and used if desired. This would further enhance public engagement and keep distributers on their toes to ensure the product pipeline is keeping up with consumer demand.

Do you support a penalty of $100/50 per g/km for new and used?

We believe that to successfully achieve a **Cleaner**, **Greener** and **Safer** New Zealand fleet the system should not discourage consumers from choosing to purchase a new vehicle. If anything, it should be making the option to buy newer technology more desirable.

The reality is the rate of 'improvement' in our fleet is held back as used imports average 10 years of age on arrival, and by their very nature come with:

- Older emissions levels
- Less efficiency in terms of C02 generation
- Safety standards (crash, ESC, airbags, driver assists etc)

For this reason, there is no logic to charging different rates for C02 emissions. To keep the system simple and transparent there should be a **single rate for all vehicles imported** into New Zealand that exceed the required C02 standard. It does not matter if its $50, $100 or splitting the different at $75, what matters is that it applies to all vehicles equally.

'If', the Feebate scheme was allowed to be implemented with dual rates for new and used our ability to catch the rest of the world would greatly diminish. We would also risk becoming an increasingly easy target for our trading partners to offload less desirable ICE products and potentially end-of-life BEV's and PHEV's given the environmental costs associated with disposing of vehicle batteries.

Should new vehicles include near new vehicles less than 3 years old?

No, we don't agree the new vehicle range should be 0-3 years old.

A better definition 'at the point of entry' that keeps everything simple:

New = less than (<) 12 months old from date of manufacture

Used = greater than (>) 12 months old from date of manufacture

Not only does this align better with what the industry considers 'new' and 'used' the information is also readily available on each vehicles identification plate and is simple to check at the vehicles point of entry into the New Zealand.

The scheme should encourage the arrival of the newest technology. If a new vehicle was considered up to three years old, it would open the door for grey-imports (another loop-hole). As new technology costs a lot and it depreciates quickly as older technology is superseded, grey imports would actively discourage consumers from investing in Cleaner, Green and Safer vehicles.

Vehicles greater than seven years of age (7+)

It is our belief that the system should actively discourage older used vehicles receiving a Feebate discount. A vehicle over seven years old from the date of manufacture should not be eligible for any discount but the fee would continue to apply. This would also help address the importation of 'old' battery products, their expected life and disposal.

Do you support amending the fuel consumption information rules?

We agree that there should be an amendment to improve the standards and that WLTP is the benchmark test for C02 measurement. It is also acceptable that other tests utilised should be factored (by a %) to align with WLTP.

One area of concern is PHEV's:

- PHEV's typically have an effective range of 30-50 Km's before emitting CO2.
- Used in a city for short trips these vehicles are as good as a BEV
- Used on longer trips exceeding the batteries capacity, the smaller engines become less efficient and often produce more CO2 than an ICE equivalent.

Caution should be taken when categorising and assessing PHEV's CO2 contribution. It is also worth noting that in the UK the government has removed incentives on PHEV's.

Move from Euro 5 to the Euro 6 standard

The focus is on the largest greenhouse gas C02. However, that is only one part of the emissions equation. A tighter transition framework to move both New and Used from Euro 5 to the Euro 6 standard for tailpipe emissions (Cleaner) would be another progressive step forward and improve the air quality in congestion areas. Now is the right time to make this change and include it as part of the vehicle consumption and emissions requirements alongside WLTP.

Two levels of discount make sense

The existing framework is agreeable as it takes into consideration both CO2 emissions and the age of the vehicle.

- New vehicles could receive 100% a discount up to a maximum of $8,000
- Used vehicles up to seven years old could receive a discount up to the maximum of $2,600
- Vehicles older than seven years (7+) would not be eligible for a discount but would still incur a fee if they exceed the CO2 standard.

Summary

- We support actions to move towards a **Cleaner**, **Greener** and **Safer** fleet

- We support a single Feebate scheme (fee & discount) type system applied to all light vehicles imported

- The system needs to be:
    - Transparent
    - Simple to understand and administer
    - Applied at the point of entry to New Zealand with no exceptions
    - Focused on consumer choice as a 'lever' to influence demand

- The 105g/km aspirational target be shifted to a 2031 goal

- The CO2 target bands must accommodate the practical reality that light commercial vehicles comprise an essential component of the productive sector

- New vehicles classified as <12 months from date of manufacture

- Consumer support and belief is a critical driver. However, all parties need to understand that a **Cleaner**, **Greener** and **Safer** fleet will cost more than the status quo.

The Colonial Motor Company Limited

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Appendix 1

Possible actions to achieve a reduction in the New Zealand fleet:

- Remove 'older' vehicles:
  - Scrappage bounty – for vehicles over say 15 years of age (UK, Europe)
  - Tighten roadworthiness checks – WoF / CoF
  - Introduce exhaust emissions checks for WoF /CoF
  - Actively remove un-registered, un-warranted vehicles from the road (confiscation, tow, compound)

- Cut the importation of older used vehicles at 7 years maximum

Appendix 2a

Possible actions to encourage buyer behaviour CGS:

- Increase the annual registration fee – graduated cost based on the CO2 band

- Increase fuel tax- to Europe type levels
  - Impact on future choice of vehicle
  - Discourage use of vehicles or eventual replacement
  - Encourage use of alternative transport solutions

- Tighten up FBT rules for light commercial vehicles

- Move to Euro 6 (and equivalent) fuel emissions standards ASAP

- Sales tax on higher emissions vehicles (Clean Car Discount)

- Congestion charging encouraging use of alternative solutions

Appendix 2b

Upgrade of Road User Charges (RUC's) to maintain the "tax base"

- Currently BEV's are excluded from RUC's until 2021

- It will be essential for the government to continue to collect tax to maintain the road network

- In the medium to long term the current 'petrol tax' on fossil fuels will need to be replaced

- We consider that moving <u>all</u> fuel excise tax collection to the RUC system is the best option

- RUC's for heavy vehicles are based on the axle loads which reflect 'wear and tear' on the road network. RUC's for light diesel vehicles fall into a single category but would more equitably be aligned around the weight of the vehicle. This weight basis would be applicable to BEV's which are relatively heavy compared to other same function type vehicles

- An extension to this concept could see 'annual registration' integrated as part of the RUC system. This would simplify the 'vehicle licensing' administration process (one label rather then two).