



# MTA Submissions

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## Ministry of Transport: Discussion Paper on a Clean Car Standard and Clean Car Discount

10 September 2019

Dear Sir / Madam:

**Submission: Discussion paper on a Clean Car Standard and Clean Car Discount**

This submission is from:

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Thank you for the opportunity for MTA to provide comment on the discussion paper on a Clean Car Standard and Clean Car Discount regarding the views of and its effect on the automotive industry.

**This MTA submission has been prepared by:**

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With assistance and analysis from:

- Dr Julian Williams, NZIER

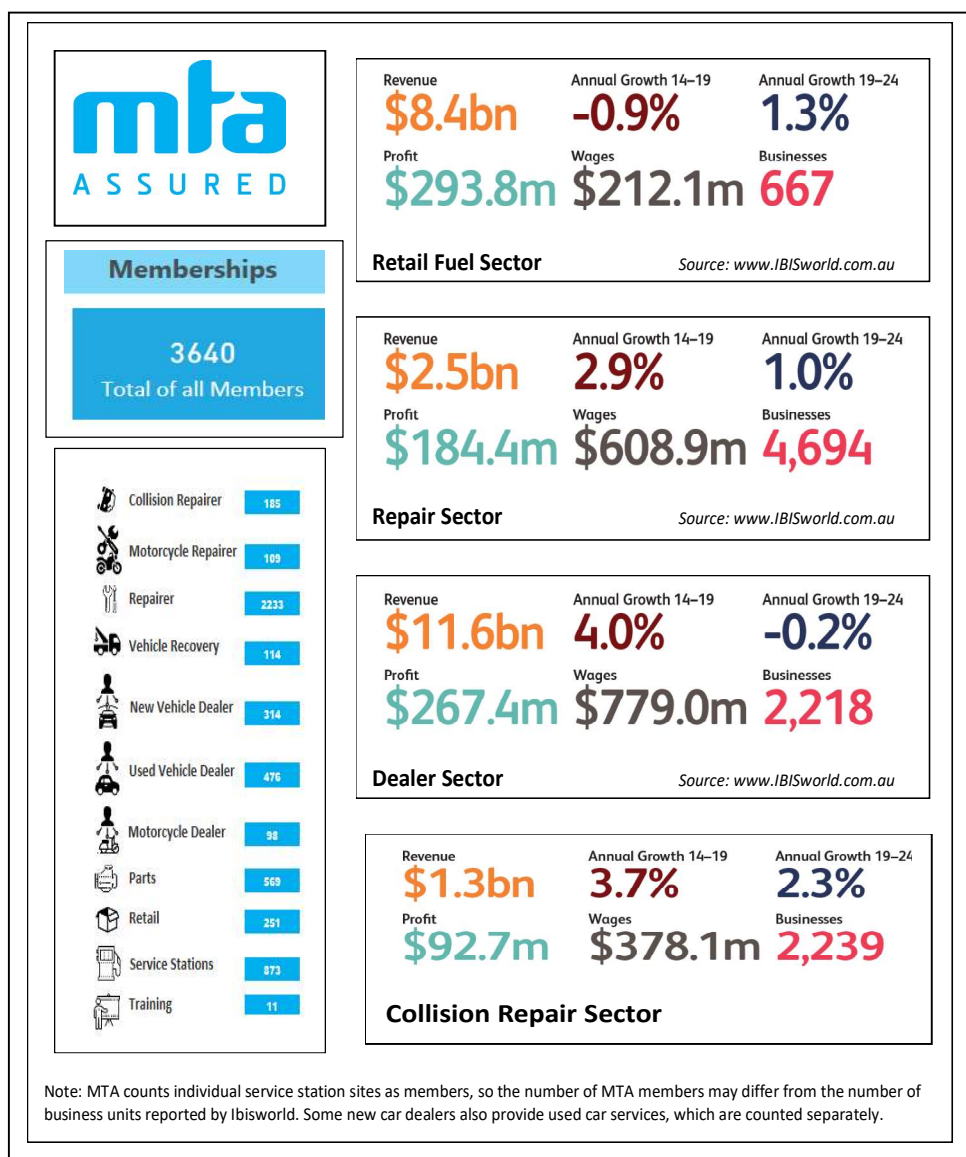
Yours sincerely



Greig Epps  
**Advocacy & Strategy Manager**

## Motor Trade Association Inc (MTA)

- MTA was founded in 1917 and celebrated 100 years of trust with the NZ motoring community in April 2017
- MTA represents approximately 3,600 businesses within the New Zealand automotive industry and its allied services
- MTA Members operate businesses including automotive repairers (both heavy and light vehicle), collision repair, service stations, vehicle recovery, vehicle importers and distributors and vehicle sales.
- The automotive industry employs around 57,000 New Zealanders
- The four main sectors represented by MTA generate around \$23.8 billion in revenue each year.



## Contents

Summary.....	5
Addressing CO2 emissions.....	5
Our concerns with the proposals.....	5
Where does this policy fit in the whole picture?.....	5
MTA counterproposal .....	6
We recommend .....	6
Section 1: MTA Counterproposal.....	7
Section 2: Target a just transition .....	10
Just transition.....	10
Setting a fair target .....	10
Section 3: MTA critique of consultation paper.....	14
Concluding comment .....	22
Appendix 1 Scenarios of net penalties and credits to motor traders.....	24
Appendix 2: Evidence base for MTA’s submission .....	29
1. Clean car policy must be well designed.....	29
2. Cost benefit analyses for consultation document are unsatisfactory .....	30
3. Technology change required is a significant constraint .....	32
4. Motor industry needs to be properly consulted.....	36
References .....	38
Appendix 3: MTA responses to questions in consultation document.....	39

# Summary

## Addressing CO2 emissions

- MTA acknowledges the need for action regarding CO2 emissions and agrees with the principles behind the Government's proposals.

In our July 2018 submission on the Zero Carbon Bill<sup>1</sup>, MTA acknowledged “the threat to New Zealand of anthropogenic climate change”. At that time, we shared the concerns of other submitters “with respect to the timing of actions, the basis on which targets are set, and the need for clarity on how and when action plans are developed to implement targets”. We went on to say:

*There is no disagreement that we must act now. However, it is unclear why new targets for 2050 are required. What international obligation or local imperative is driving us towards that date? MTA understands that the Paris Agreement requires countries to work towards reaching net zero targets in the second half of this century (ie between 2050 and 2100).*

## Our concerns with the proposals

- MTA **does not support** the Clean Car Proposals (the standard and the discount/feebate) as presented in Ministry of Transport's 2019 consultation paper.
- MTA finds that the Clean Car Standard (CCS) and Clean Car Discount (CCD), as proposed by the Ministry, are:
  - poorly designed,
  - lack robust evidence and analysis<sup>2</sup>, and
  - impractical to implement.
- MTA proposes a less hurried introduction of a simpler CO2 emissions entry standard with:
  - incentives and penalties being applied at the border and
  - consumers being properly educated and informed of the emissions profile of their potential vehicle purchase

## Where does this policy fit in the whole picture?

The CCP paper notes (at page 6):

*The New Zealand Productivity Commission and the interim Climate Change Committee have both recommended prioritising action to reduce transport emissions. This action has to stop the annual increases in transport emissions and put the sector on a path to net zero carbon emissions.*

MTA acknowledges that the 2018 Report of the *Intergovernmental Panel on Climate Change* (IPCC) further signalled the need for countries to act, sooner rather than later. However, we dispute that this strengthened imperative means that the New Zealand transport sector – and, indeed, just a small part of that sector in the form of light vehicles – should carry the burden of reducing the lion's

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<sup>1</sup> MTA Submission to the Ministry for the Environment on the Zero Carbon Bill (19 July 2018)

<sup>2</sup> Other submissions on the ZCB also “cast doubt on some of the modelling presented in support of the Zero Carbon Bill, especially a heavy reliance on assumptions”. That pattern continues in this consultation which relies on a wide array of assumptions and assertions (see pages 18-22 and Appendix 2).

share of CO<sub>2</sub> emissions. To continue the animal imagery, there is another elephant in the emissions room that should be addressed.

More discussion is needed on how this emissions reduction policy fits with other reduction policies whether direct, such as fuel taxes, or indirect, such as the promotion of public transport and active modes of transport. Can New Zealand's ultimate emission reduction goals be reached by multiple paths rather than a heavy reliance on reducing light passenger vehicle emissions.

As well, if these proposals help to change the composition of the vehicle fleet, we need more clarity about the plans for removing old vehicle stock (tyres, batteries, bodies, and fluids, etc).

### MTA counterproposal

In this submission we present a framework counterproposal for consideration. In the alternative, MTA submits a modified implementation of the discount/feebate proposal. Included is the evidence and rationale that led us to this position<sup>3</sup>.

The Ministry's proposals seek to implement two distinct policies, which has caused some confusion in public discussions. Indeed, much of the media commentary has focused on the discount/feebate policy and less on the emissions standard policy (perhaps due to low level of analysis of that policy), which will have, arguably, the greatest impact on the industry.

The overall MTA position is that there is no logic or justification for the application of two separate programmes (CCS and CCD). In fact, our analysis shows there to be many potential perverse, contradictory outcomes to the dual implementation of these proposals.

### We recommend

We submit the following alternative options in order of priority:

- A. Introduce a significantly revised CCS programme (renamed to something like the "CO<sub>2</sub> Emissions Entry Standard (CEES)", and discard the proposed CCS and CCD schemes. In effect CEES would be a 'hybrid' of the two schemes drawing on elements from both.
- B. Proceed with a modified CCD but discontinue the proposed CCS scheme

A key aspect of our submission is that the incentives and penalties should be applied at the border on vehicle entry and not at the time of the retail transaction as proposed within the discussion paper.

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<sup>3</sup> We gratefully acknowledge the information supplied to us by the Motor Industry Association Inc (MIA), which has allowed us to undertake the necessary modelling to better understand the potential impacts.

# Section 1: MTA Counterproposal

MTA submits that the Government should consider a CO<sub>2</sub> emissions entry standard (CEES) that:

1. Is developed and designed through more comprehensive and collaborative consultation with the industry;
2. Implements:
  - a. an entry standard with an emissions target of between 125 and 150gCO<sub>2</sub>/km by 2025 (with further incremental reductions on 3-5 year steps)<sup>4</sup>,
3. Imposes a penalty or an incentive/credit:
  - a. at the border point of entry from 2022
  - b. applied equally to all importers (private and in trade)
  - c. that is recorded in the Motor Vehicle Register (MVR) so that it is clearly identifiable by suppliers and consumers in the retail market (thereby informing individual consumer choice decisions);
4. Provides a requirement for clear information to consumers from 2021 on:
  - a. emissions levels for all cars at first sale in the New Zealand retail market<sup>5</sup>
  - b. the level of CEES penalty or credit applied at the border (when introduced),
  - c. the resulting final price to the consumer, and
  - d. the vehicle safety rating (if known);
5. Meets the principles of “*Just Transitions*” by:
  - a. engaging with affected parties more substantively and
  - b. providing the industry and market with a more achievable phase-in period of commencement.

Our counterproposal is shaped by the following evidence and view<sup>6</sup>.

- There are several instances in the CCP consultation paper where the Ministry has acknowledged that it does not have the information to analyse the policy effect.
  - MTA disagrees that the necessary and relevant knowledge was not accessible by the Government (refer Appendix 1 para 42 to 48)<sup>7</sup>.
  - In any event, useful information could have been readily shared if the automotive industry had been approached for assistance in developing this proposal.
- MTA’s analysis shows that 150gm should be an **achievable** target, while 125gm would be a **stretch** for industry to meet.
  - One possible progression would be 150gm by 2025, 115gm by 2030, and 85gm by 2035.
  - A reasonably achievable target can be adjusted if these critical events come to pass.

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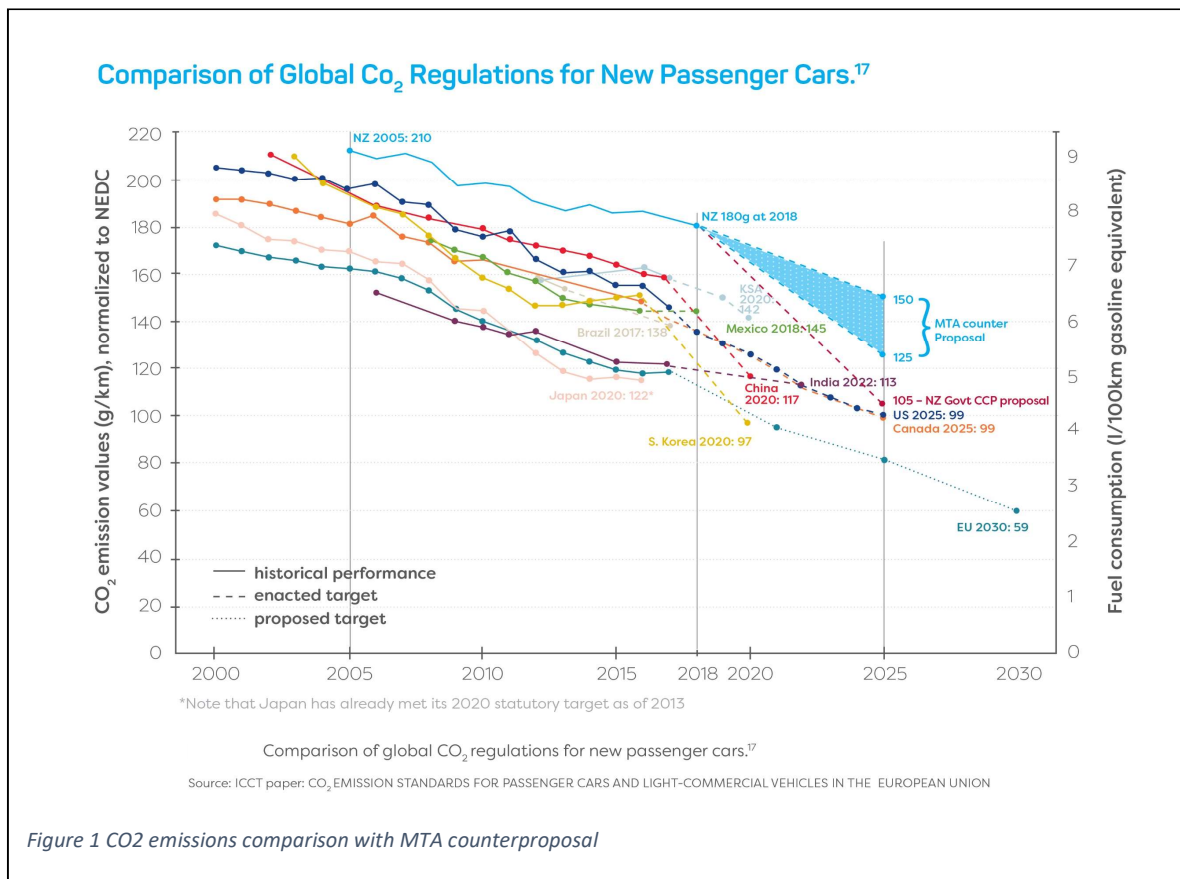
<sup>4</sup> This target needs to be clarified with industry.

<sup>5</sup> MTA has previously submitted to Government that **all** vehicle sales transactions (private and retail) should be accompanied by a revised version of the current Consumer Information Notice (CIN). This vehicle information memorandum would include any accident or damage history of a vehicle and its safety rating and fuel efficiency rating.

<sup>6</sup> See also **Error! Reference source not found.** for comparison of CO<sub>2</sub> emissions.

<sup>7</sup> Appendix 1 presents an analysis of the CCP paper. Paragraph references in this submission are to it.

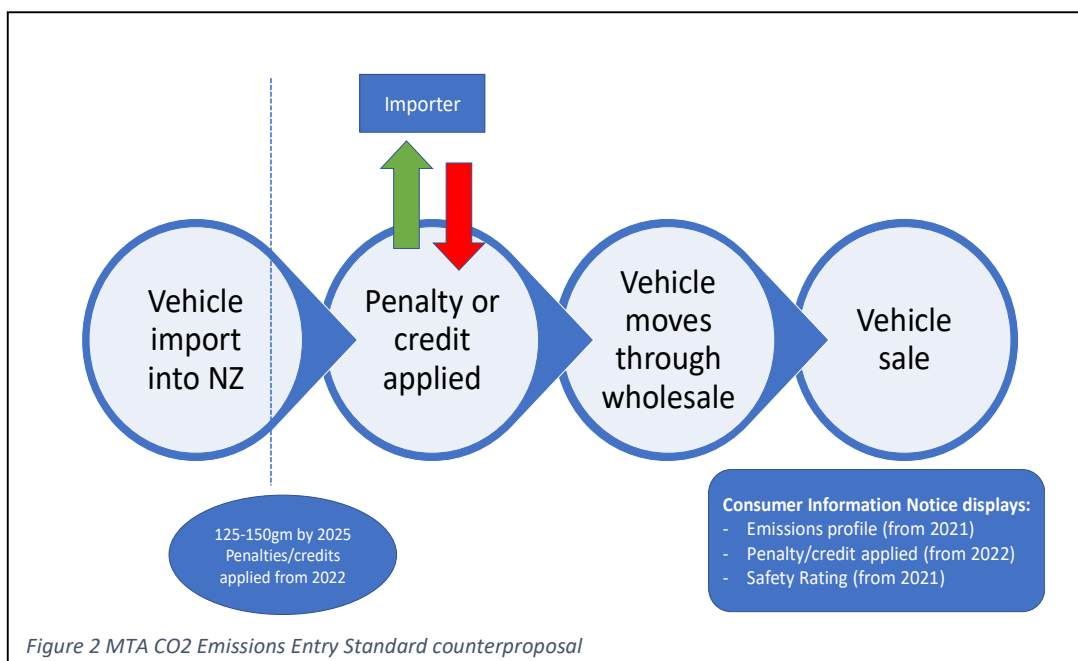
- There is uncertainty whether EVs will in fact reach price parity with ICE vehicles around 2025 and the extent to which such low-emissions vehicles can be supplied to New Zealand.



- The CCD sends useful price signals to consumers about what they are buying, (Appendix 2 para 1). However, the net benefits of the CCD are small compared to those of the CCS.
- A modified CCS (ie CEES) can cover some of the impacts of the CCD (Appendix 2 para 9, 10). This means that putting a modified form of CCS in place with increased emphasis on signalling should achieve much of what the CCD policy intended.
- There is considerable complexity (Appendix 2 para 48) and uncertainty (Appendix 2 para 24 to 31) associated with the CCD benefits. In some cases, CCS and CCD conflict with one providing a credit and the other a penalty.
- The CCS impact on importers and consumers is unclear (Appendix 2 para 7) and can result in considerable costs for consumers (Appendix 1). About 3,000 registered motor vehicle traders will be affected and will need to comply with the CCS or CCD. This introduces considerable complexity in their transactions with consumers.
- The CCS implies that importers will actively manage the mix of product to balance their liability. But it's customers (demand) who decide what they want, not importers (supply).



- The CCS tax must impact prices to influence demand, so it needs to be passed onto the customer to do what is intended.



It is important the CEES impost be applied in a simple, clear, low cost, and efficient manner. Imposing the CEES duty at the border reduces the complexity of transactions.

The resulting increase or decrease in the vehicle purchase price must then be declared on a modified Vehicle Fuel Economy Label or revised Consumer Information Notice (CIN)<sup>8</sup>.

A duty at the border point of import is consistent with the recognition that importers will import what they perceive people will want to buy, so it is best to just influence price only and to do that efficiently at the border prior to entry into the consumer market.

If the proposed CCS scheme is applied at the border it will impact 25 or so new vehicle importers and around 100 higher volume used importers along with some smaller volume importers who still import directly. Conversely if the policy is to be applied at retail it will possibly impact thousands of traders. Also, application at retail will be significantly more costly to apply, administer, audit and enforce.

<sup>8</sup> Footnote 5 above refers; it should be also noted that currently the CIN is only required for used cars sold by a registered motor vehicle trader. A change would be necessary to have the revised CIN (with emissions and safety information) required to be provided on all vehicle transactions: new, used, and private.

## Section 2: Target a just transition

### Just transition

The CCP is the first substantive policy move to develop a low-emissions economy that will require the Government to demonstrate what it means by a “just transition”. According to the MBIE website, this means:

*The Government has committed to making this process a “just transition”—one that is fair, equitable and inclusive. A just transition is about making sure that the Government carefully plans with iwi, communities, regions and sectors to manage the impacts and maximise the opportunities of the changes brought about by the transition to a low emissions economy.<sup>9</sup>*

There is a question here for the Ministry as to whether the analysis presented in the suite of CCP papers adequately accounts for the impact of the proposed policy on businesses and the people employed in those businesses. Is this the “careful plan[ning]” expressed by the MBIE website? Was setting a 6-week consultation period – with the expectation of a final decision in September – working with sectors to manage the impact and maximise opportunities?<sup>10</sup>

MTA appreciates that it and other representative organisations received extensions for submissions; however, this does not alleviate concerns over the original flawed design of this process.

The environmental targets are clear, but in view of the goals of a “just transition” where is the assessment and understanding of the impact on industry and those who rely on that industry? Where is the assessment of the impact on consumers of the combined policies (as they are intended to be implemented)?

***It does not seem fair, reasonable, or just for the Government to now expect the automotive sector to roll back in 5 years the effects of nearly three decades of government policy.***

The CCP notes at page 10 that the CCS will not apply to the re-sale of existing vehicles in the domestic market. On page 26, it notes that the CCD will not apply to vehicles once they have been used in New Zealand. But, as the paper also notes, these sales account for the majority (about 70%) of annual vehicle sales (page 10).

### Setting a fair target

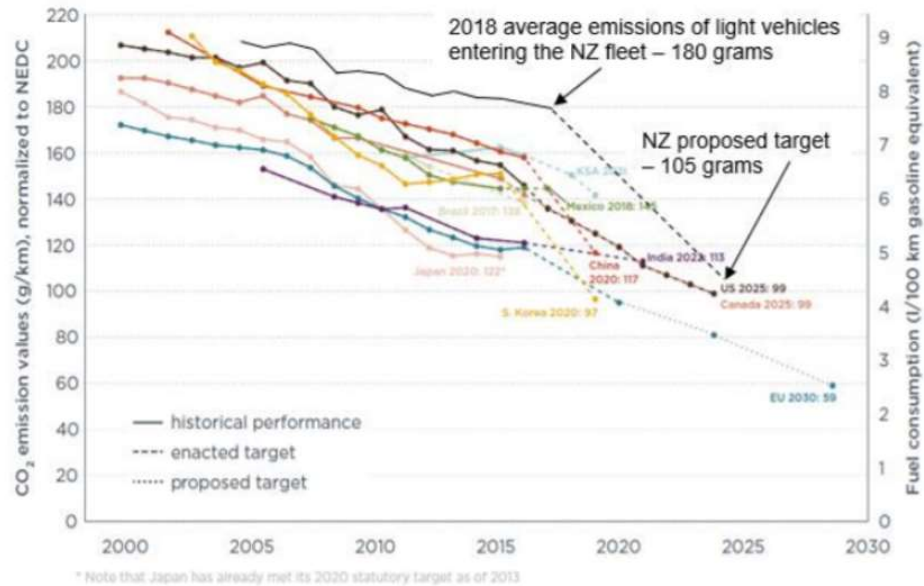
The CCP paper emphasises the need for action. The paper notes (page 6) that transport emissions increased 82 per cent over the period 1990-2017. It also notes a comparison of global CO<sub>2</sub> regulations from 2000. The chart on that page (reproduced below as Figure 2) indicates the intended path of the NZ CCS towards 105 gCO<sub>2</sub>/km.

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<sup>9</sup> <https://www.mbie.govt.nz/business-and-employment/economic-development/just-transition/>

<sup>10</sup> In the spirit of full disclosure, MTA staff were invited to speak to a Ministry of Transport consultant about setting an emissions profile for the NZ fleet. The interview was held approximately 12-18 months prior to this CCP consultation and lasted for one hour. None of MTA’s concerns or suggestions are reflected in the final shape of the policy and we will reiterate many of them in this submission.

The proposed rate of annual change to 2025 for New Zealand at about 11 gCO<sub>2</sub>/km is nearly 3 times the average annual reductions achieved by EU/USA/Canada/Japan combined (see figure 2). That rate of change would bring very significant market challenges.



Source: ICCT (January 2019) *Policy update: CO<sub>2</sub> emissions standards for passenger cars and light-commercial vehicles in the European Union*. Note: the Trump administration has removed the US 2025 target.

Figure 3 Comparison of global CO<sub>2</sub> regulations for new passenger vehicles

MTA and others in the motor industry<sup>11</sup> have investigated what levels of 2025 emissions targets might be realistically achievable.

The Motor Industry Association<sup>12</sup> (MIA) modelled the impact of the proposed CCS on the new car sector. Using the MIA models, MTA produced Tables 1, 2 and 3 in Appendix 2. These tables show (in terms of engine and weight band) estimated aggregate values of penalties and credits to be borne by new car importers from 2022 to 2025. Essentially some or all these costs must be passed on to consumers.

<sup>11</sup> Including the Motor Industry Association, the Imported Motor Vehicle Industry Association and the Automobile Association.

<sup>12</sup> Technical emissions level data for make and model of 1,768 car models were supplied by the Motor Industry Association.

Three scenarios are considered:

<b>Business as Usual (BAU)</b>	assumes future emissions levels of vehicles follow long term annual trends and do not reach the overall 105 gCO <sub>2</sub> /km target by 2025
<b>Best Achievable Rate (BAR)</b>	assumes future emissions levels of vehicles follow a “best achievable rate” pathway for the sector
<b>Amount to Reach Credit (ARC)</b>	considered unobtainable; modelled to achieve the 2025 emissions target

Under the proposed CCS regime (105 gCO<sub>2</sub>/km by 2025) the three scenarios indicate from 2022 to 2025:

- BAU: **\$1,357 million in net aggregate penalties**
- BAR: **\$667 million in net aggregate penalties**
- ARC: **\$19 million in net aggregate credits.**

Interestingly, the scenarios demonstrate that diesel powered cars are less penalised than petrol ones in certain cases (eg Table 1 for weight class 5 in the BAU case). This indicates that, in part, the proposed CCS policy will incentivise the substitution of diesel types for petrol types.

MTA investigated the aggregate impacts for other arbitrary emissions targets for 2025, assuming no change to the proposed penalty of \$100/gCO<sub>2</sub>. The objective is to select a target that approximately achieves a net zero aggregate penalty. This implies no advantage or burden for the sector (and consumers) from the policy.

We found financial impacts by 2025 of:

<b>Target</b>	<b>BAU (Business as Usual)</b>	<b>BAR (Best Achievable Rate)</b>
<b>140gCO<sub>2</sub>/km</b>	<b>\$10 million</b> (net aggregate credits)	<b>\$1 billion</b> (net aggregate credits)
<b>125gCO<sub>2</sub>/km</b>	<b>\$571 million</b> (net aggregate penalties)	<b>\$123 million</b> (net aggregate credits)

As stated above, these results are contingent on the nominal unit values of penalty and credit, here assumed to be \$100/ gCO<sub>2</sub>/km. On this basis, an emissions target of the order of 125 gCO<sub>2</sub>/km to 150 gCO<sub>2</sub>/km may be reasonable for a just transition. They are also contingent on importers being able to access vehicles that meet or exceed targeted CO<sub>2</sub> levels.

One of the arguments for New Zealand setting strong goals for the Paris Agreement was that, although we are a small country, we must do our bit and every little bit helps. Surely this approach is scalable? What can each person do to help? How about paying a small fee (or receiving a small rebate) on each private sale – payable on registration of the vehicle transfer?

Such an individual policy may perversely incentivise vehicle owners to hold on to vehicles longer than they do at present (approximately 18 years). Many of these vehicles will likely be diesel powered, as the policy favours purchase of new diesel types over petrol ones (see above and Appendix 1). However, we understand that the government has considered a vehicle scrappage scheme, which could be a relief valve for the potential of a growing glut of older, end-of-life vehicles.<sup>13</sup>

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<sup>13</sup> The CCP paper did need to better assess the wider policy landscape in which the goal of emissions reductions sits. An end of life vehicle scheme would seem logical for a policy that seeks to refresh the vehicle fleet and move older, high emitting vehicles out of the fleet.

## Section 3: MTA critique of consultation paper

In this section, MTA presents a broad critique of the consultation paper and expands on certain discussion points related to the market, consumer demand, timing, technology assumptions and assertions.

### *Section 3.1 – MTA's broad response to the consultation paper:*

- MTA agrees with the need to act and move to a low-emissions economy.
  - The need to reduce emissions from vehicles is accepted.
  - Emissions can be reduced by changing the emission per vehicle, by reducing the number of vehicles, or by reducing usage.
  - The CCP attempts to influence emissions per vehicle by taxing some vehicles as they enter New Zealand.
- A well-designed policy (Appendix 2 para 1 to 10) will support this goal.
  - However, the CCP is not well designed (Appendix 2 para 28 to 31, para 34 to 37)
- We question the timeframe being suggested (Appendix 2 para 32)
- We question whether the mechanisms proposed will be effective (Appendix 2 para 33 to 41)
- We have serious concerns about the validity of the Ministry's modelling and analysis (or lack thereof) (Appendix 2 para 11 to 31)
  - Fuel consumption figures on which the rewards or penalties are based, favour hybrid variants because the test processes are based on short test cycles where battery contribution has the greatest possible effect.
  - Longer drive cycles result in higher ratio of ICE power and a corresponding impact on real world fuel use. This aspect was recognised when the UK removed incentives for PHEV vehicles in 2018
- We have serious concerns about the broad assumptions and assertions (Appendix 2 para 18 to 21) made in support of a policy that will have significant impact on the automotive sector and, potentially, the wider New Zealand economy (Appendix 2 para 42 to 49)
  - Very significant expectation is placed on adequate supply of EVs within the volume sectors of the market.
  - More EVs are coming to market, but there is no certainty NZ will be able to secure adequate supply.
  - Conversely, ICE vehicles will continue to be a major part of our vehicle imports for at least the next decade.
  - Technology advances within the ICE sector are ongoing so, the policy needs to provide the right signals to promote those technology uptakes and not try to 'penalise' ICE out of the market.
- Unnecessary complexities of the proposed include:
  - While it is a tax on imports, the point when the tax is due appears to be when it is registered. The industry has wholesalers and retailers. It's unclear who pays, who is the supplier who at year end balances his fleet; the importing wholesaler, or the retailer who registers the vehicle - but these are usually separate businesses, with very different timetables.

- Grouping the tax liability across different suppliers may lead those businesses to become engaged in price fixing - one entity of a 'group' is responsible for paying any penalty.
- Administration of the penalty is complex. There is a risk that selecting an entity in a group to handle penalty administration (page 21 of the consultation document), could result in added accountancy, bureaucracy and complexity.
- A similar complexity is the burden on the motor vehicle trader (page 21 of the consultation document) to exchange any over achievement credits for value with other traders. Apart from the transaction costs, the trader may have to discount the price of the credits to achieve a transaction, at a net loss to the motor vehicle trader.
- There is no rationale for exempting private individual importers from the CCS.
  - With such exemption a private import brokerage market will evolve. If the purpose of the tax is to reduce emissions, by influencing which vehicles they choose to import, then surely the tax should be the same for all vehicles imported of a given emission level. Instead there is a material difference according to who is the importer of what can be the same vehicle.
- There is no need to seek to influence the selection of models that suppliers choose to import into NZ, because as the consultation document notes (page 20 of the consultation document) "New Zealand would not carry much weight as an influencer of global vehicle manufacturers".
- Appropriate industry consultation (para 42 to 48) is essential to create a well-designed CCS.

### *The market worked*

Over the 27-year period in which total fleet emissions grew, they increased under governments of all political stripes and were a consequence of a growing economy, population, and vehicle ownership. Rightly or wrongly, this was the market working – vehicles were imported in compliance with the standards set by government and in response to consumer demand.

There was a lack of direction from Government as to the emissions profile to be achieved by the vehicle industry, and no consumer incentives. CO2 emission is a function of fuel consumption and EECA's VFEL<sup>14</sup> at point of sale has somewhat helped educate consumers about fuel consumption, but more is needed.

The CCP paper claims (page 8) that "Kiwis are *missing out* on many of the fuel-efficient vehicle models sold overseas" [emphasis added]. This emotive language implies that something is being mischievously withheld from New Zealanders. New Zealanders are not being denied anything; rather, based on the information available to them and their own purchase criteria, consumers have

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<sup>14</sup> The introduction of a Vehicle Fuel Efficiency Label (VFEL) has provided some information but, in some ways, has been more bane than boon. As noted in the CCP paper, the vast majority of vehicle transfers each year are private and the VFEL is not required in such sales. MTA estimates private sales to account for about 70% of transfers each year.

been making choices that tend towards the less fuel efficient. 'Kei' cars as sold in Japan can be imported to NZ but there is no demand<sup>15</sup>. They simply don't fit the NZ driving environment.

The vehicle market is like any other market: if a product is wanted by consumers, then a supplier will meet that demand. Electric vehicles are a prime example – without Government incentives, a small niche market found a way to have its demands met. The majority of EVs in the NZ fleet came into the country as used imports, but now much larger numbers will be required and those volumes will not be available from the Japan domestic market as used imports – EV have been and still are very low sellers in Japan – a market which favours hybrids.

EV demand is growing, but it is still very low because up to now new EVs have not been a mainstream economic reality. Because supply is low, the prime barrier to EV uptake remains as price. Even used EVs are considered pricey for many vehicle purchasers. Average used EV prices are around \$25,000, whereas a comparable ICE vehicle averages around \$16,000.<sup>16</sup>

Increased vehicle emissions are not simply a reflection of average emissions per vehicle, it's also a reflection of the number of vehicles. The NZ fleet has grown:

- 1980 = 2.1 million
- 2000 = 2.8 million (33% increase)
- 2010 = 3.5 million (25% increase)
- 2018 = 4.3 million (22.8% increase)

There is no analysis of the impact of fleet size on total emissions, but the average CO<sub>2</sub> emissions from the new vehicle market has reduced from 210g CO<sub>2</sub>/km in 2005 to 180g in 2018 – an average reduction of 2.3g/yr. Any advance on that rate would be an improvement but the figure required to meet the proposal (around 10g/yr) is excessive.

#### *Consumer demand*

The lack of any market impact analysis in the CCP paper (Appendix 2 para 5, 31) suggests that it is incumbent on submitters to provide some basic commentary on how markets work. As noted above, in general, suppliers will supply goods based on the demand for those goods from consumers. Suppliers in all markets are continually revising their product mix to stay in line with consumer taste trends. The question arises, though, between now and 2021, on what information (customer feedback) can vehicle suppliers base their vehicle importing strategies (Appendix 2 para 46)?

The CCP consultation document (page 13) reports that "Currently there is not enough information to know with certainty how average vehicle prices are likely to change due to the policy."

However, is this not the point of policy proposal? That is, to paint a picture of what a new regulatory regime looks like to consumers who will be influenced by price? Given the idea is to affect demand, and demand is driven by price, shouldn't this policy *have* to show the effect on price?

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<sup>15</sup> "Kei" cars are small-volume engine cars that comprise around 30% of the Japanese domestic fleet. They would not be powerful enough for some hilly areas and have a low safety rating. See also footnote 21.

<sup>16</sup> Refer <https://www.stuff.co.nz/business/industries/114587468/number-of-kiwis-considering-buying-evs-spikes-trade-me-figures-show>



Page 29 of the discussion paper declares the

*level of discounts paid out is largely in balance with the level of fees received.*

MTA has found it difficult to forecast with any certainty what the market will look like by 2021. However, extending 2018/19 known new vehicle registration figures across the CCD proposals indicates **\$73m** in discounts versus **\$175m** in fees. This is not a 'largely balanced' outcome.

The CCD is reportedly designed to encourage consumers to choose low-emissions vehicles. However, the discount does not take effect until 2021. That year, vehicle importers will also be expected to report their product mix against the emission targets (without sanction or rebate). Without an indication of consumer preference, how are importers to calculate and plan their stock mix in the first place?

Which models of low emissions vehicles should manufacturers be making available for import, and which should used importers seek out in the Japanese auction houses? Consumers will not have had the power of the CCD to support their purchase decisions and so have not had time to signal their consumer preferences.

Vehicle purchase decisions are made on a wide array of reasons – from safety, emissions, and price<sup>17</sup>, through to brand loyalty, colour, size, and social status perceptions<sup>18</sup>. Given these differing and sometimes conflicting reasons, which high emitting vehicles will consumers still demand irrespective of the impact of CCD fees or CCS levies?

Even if we imagine the most flexible and responsive importer of used vehicles, this business needs 6-8 weeks lead-time to select, inspect, repair, and ship a vehicle. The business needs upfront capital or a good line of credit to make purchases and secure various services along the way. Once those vehicles are landed and certified, they must be transported to sales yards and sold. But before the business can interpret the signals from buyers, exercising their CCD power, it must order for the next month, and the next.

In the case of new vehicles, the order and delivery lead times are significantly longer, ranging from many months in the best possible cases to years in many/most situations. Because NZ is a right-hand drive (RHD) market and our volumes are very small by world standards, our product choice options can be limited to what is already being supplied to other RHD markets.

Therefore, if our concerns about the construction of the CCS and CCD are ignored, we submit our further concerns about the timing of the policies.

### *Timing*

The CCP timeframe for actions is very demanding (Appendix 2 para 32) and, as noted above, raises concerns about the "justness" of the policy in taking NZ towards a low-emission economy.

The apparent aim is to bring NZ vehicle emissions standards into line with other countries. However, this would be the first NZ legislation in many years specifically aimed at the CO2 profile of vehicles. Whereas:

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<sup>17</sup> The consultation paper seems to assume that these criteria are paramount.

<sup>18</sup> Arguably price plus one of these later reasons are more powerful drivers of vehicle decisions at present.

*The first Euro emissions standard was introduced in July 1992. This required new petrol cars be fitted with catalytic converters to reduce CO<sub>2</sub> emissions. It also marked the switch towards unleaded petrol.*

*Since then [the EU has] passed through a series of standards in 1996, 2000, 2005 and 2009 leading to current Euro 6, which was introduced in September 2014<sup>19</sup>.*

Europe is currently into its sixth iteration of an emissions standard. Seeking to apply policy ideas already operating in other markets can't be assumed to also work here - NZ is a different market with very different influencers. New Zealand has previously toyed with the idea of fuel standards and emissions standards and even in-service emissions testing of vehicles. However, nothing has ever eventuated.

The timing of this proposal has not considered the supply chain requirements for vehicle manufacture. The design life cycle for most modern vehicles is between 5 to 8 years. What this means is, after a model is finalised and introduced to a market, it will be virtually unchanged (except for minor modifications) until a new model variant is introduced.

The discussion paper's authors seem to hold an assumption that re-engineering car models for the New Zealand market is just a matter of swapping out one engine for another. However, as well as re-tooling and re-programming the production lines, vehicle manufacturers will also wish to undertake rigorous on-the-ground testing to ensure that the "new" engine and any chassis re-design are suitable for New Zealand's driving conditions (Appendix 2 para 34). This design and testing can take up to 12 months to conduct and conclude<sup>20</sup>.

Based on the timeframes in the discussion paper, legislation will be introduced and take effect in 2020, with 2021 proposed as a "reporting only" period for importers. From 2022, importers will be subject to the emissions targets. The CCD is not expected to take effect until 2021.

### *Technology assumptions and assertions*

The CCP paper makes broad assumptions (page 9) about future technology:

1. There is enough electricity supply for a widespread uptake of EVs, *provided the majority are charged at off-peak times* [emphasis added]
2. There is widespread charging infrastructure to enable the uptake of the level of EVs assumed
3. The theoretical standards of low emission vehicles are achievable "on road" in New Zealand
4. The assumption of 8 weight subgroups has no logical link to emission reducing technology.
5. MOT projections suggest that around 40 percent of vehicles imported will be electric in 2030 without any further intervention by government
6. The EVs available for import are suitable for New Zealand roads.
7. There will be a enough EVs available for New Zealand demand.

The CCP paper also makes unsubstantiated assertions about policy effectiveness (page 11):

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<sup>19</sup> <https://www.rac.co.uk/drive/advice/emissions/euro-6-diesel/>

<sup>20</sup> The fact that New Zealand is one of only a few right-hand drive countries also counts against our ability to influence timelines for design and manufacture of vehicles.

8. The basis for the 105g CO<sub>2</sub>/km target was that it was investigated (not implemented) in Australia
9. The irrelevance of the “head start” (page 11) in policy had by economies such as Canada and the EU, so that while the result may not be as stringent as others, the magnitude of the change required is very large.

*Responding to these assumptions and assertions:*

**Assumption 1 is an unsound deduction** as it assumes that since all ICE vehicles are generally substitutable then ICE vehicles can be swapped for EVs and consumer transport behaviour and associated electricity consumption remains static.

However:

- the Government’s own stated approach is to promote a range of transport modes, such as ride-sharing, active modes, and increased use of public transport.
- the current and previous government have each exhorted industry to refresh their business fleets with EVs (including commercial operators such as taxi companies, and retailers doing deliveries)
- If more commercial vehicles are operating during the day and more passenger services (private and public) are using electric vehicles, then it is quite likely that day-time charging could be as prevalent as off-peak, overnight charging.

**Assumption 2 is an unsound inference** that since current charging infrastructure matches small scale EV take up, then so too will long-term infrastructure

However:

- The regulatory impact statement associated with the consultation document (App 2 para 40 to 41) reports that mass adoption of EVs will require considerable infrastructure investment.

**Assumption 3 is an unsound inference** that the theoretical performance of EVs will prevail “on road”

However:

- the on-road behaviour of consumers and the mix of supply of different vehicle types mean that such performance is unachievable (Appendix 2 para 35 to 37)
- much of the demand for EVs is currently being met by used imports with batteries nearing the end of the manufacturer’s stated life cycle. This may lead to charging patterns outside the predicted model of overnight, off-peak times.

*MTA is aware of one consumer in Christchurch who purchased a used EV for his daily cross-town commute. The battery state of health meant that the owner had to charge the vehicle upon arriving at work and then again at home. He had limited opportunities to travel beyond his work commute. While this is atypical of EV purchases, it does serve as a warning that we cannot model future transport use on current ICE paradigms.*

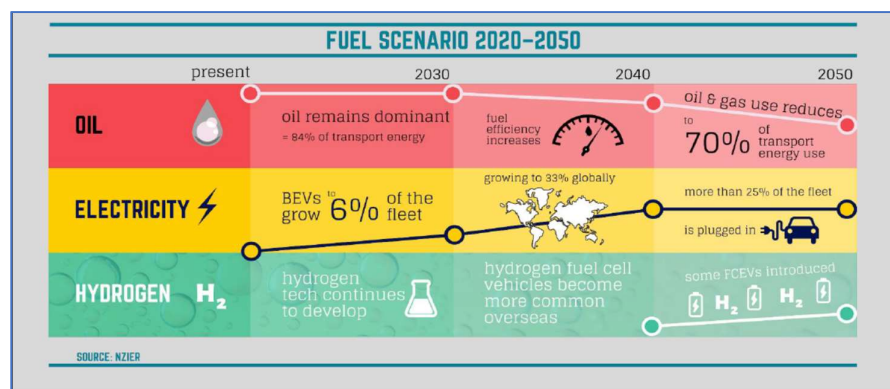
**Assumption 4 creates an arbitrary subgrouping with no logical link to emission technology.**

Consequently, perverse incentives arise. An obvious example arises in the pickup/ute segment where cab configuration and/or deck configuration can spread a particular model across 2 or even 3 weight bands and therefore attract 3 different penalty categories. The design of the programme needs to be modelled to find the right steps and penalty outcomes to minimise unintended consequences. Currently it fails to achieve that requirement.

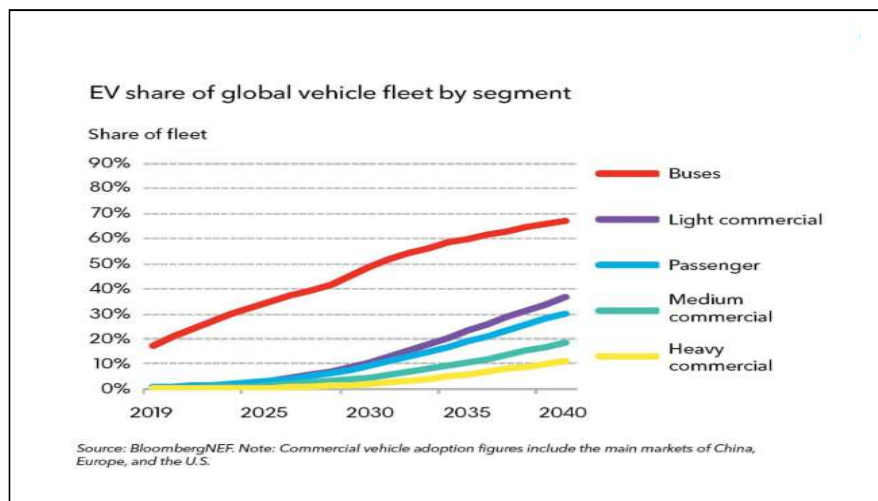
**Assumption 5 is an unsound inference** that the level of imports of EVs can be increased as for any type of ICE and that it will follow a similar path of technology and uptake of EVs in New Zealand.

However:

- we simply find the claim that 40% of vehicles entering NZ in 2030 will be electric to be quite extraordinary. This would mean, assuming a 1:1 mix of new and used imports with total import volumes around 200,000 units, approximately 80,000 EVs new and used being imported within 10 years. A key catalyst for increased EV uptake is price, and price parity (between similar models of ICEVs and EVs) is not expected until 2025.
- To put our thinking in context, work done by NZIER for MTA, identifying projections of global organisations suggests that BEVs will be less than 10% of the fleet in 2030, lifting to 25% between 2040 and 2050.



- Similarly, the well-respected thinktank Bloomberg NEF has predicted passenger EVs reaching around 30% of the global fleet in 2040:



**Assumption 6 is an unsound inference** that EVs suitable for the Japanese domestic market will be suitable imports for New Zealand. Japan reached 105gm in 2014 (page 12). This is part of the basis for the 105gm CO<sub>2</sub>/km target setting.

However:

- The Japanese domestic market caters to a large population base, in crowded cities, with different needs from the average New Zealand vehicle owner. As such, around 30% of the Japanese domestic market are “Kei” cars, which do not sell well in overseas markets.<sup>21</sup>
- If the emissions profile of the Japanese fleet automatically translated into better emissions for NZ due to Japanese imports, then the graph on page 11 of the CCP paper would surely show NZ’s 2015 emissions strongly reflective of Japan’s 2005 emissions given Japan is our dominant source of vehicles (an estimated 50% of new, and 95% of all used imports).
- At page 13, the consultation document notes that “over the next few years, low-emitting ute models *may* become more commonly available” [*emphasis added*]. But is this mere possibility enough to base a policy on?

**Assumption 7 is an unsubstantiated assertion** that EVs will be available in sufficient numbers to meet the required take up. If the numbers are not available and this is very likely because the New Zealand market does not have a high priority for suppliers, then CCS penalties will be levied with no net gain.

**Assumption 8 is simply incorrect and an erroneous basis for policy.** Australia has been considering a fuel efficiency standard<sup>22</sup> (footnote page 9 and page 11 body text).

However:

- The key phrase here is “has been considering”. The Australian consultation paper cited in the CCP is from 2016 – 3 years ago. The CCP cannot propose the 105 gCO<sub>2</sub>/km setting based on it being the target for Australia because that consultation went nowhere. The setting was never agreed, and it became a contentious election issue. As well, the 105 gCO<sub>2</sub>/km target was one of three possible targets proposed in the paper; so, if the 105 gCO<sub>2</sub>/km target did not gain support in Australia, why did the government not consider proposing a less stringent target here?

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<sup>21</sup> **Kei car** (or **keijidōsha** "light automobile") is the Japanese vehicle category for the smallest highway-legal passenger cars. The Kei car regulations specify a maximum vehicle size, engine capacity of 660cc and power output. Kei cars have become very successful in Japan, over one third of domestic new car sales in fiscal 2018, however in export markets the genre is generally too specialized and too small for most models to be profitable.

<sup>22</sup> This could be a persuasive criterion as many car-carriers deliver vehicles to New Zealand *en route* to Australia (or vice versa) and it has always been useful for our vehicle standards to be aligned. Many New Zealand standards do reference the Australian Design Rules (the ADRs) for vehicles.

**Assumption 9 is an unsound inference** that because Canada and the EU implemented a lesser scale of change emission, then New Zealand can implement a target that won't be as strong as Canada and the EU in 2025.

However:

- This argument ignores the massive head-start that these countries have had on NZ (Appendix 2 para 32). The CCP proposes that NZ vehicle importers achieve a 75 gCO<sub>2</sub>/km reduction in CO<sub>2</sub> over 7 years, or 10.7 g/yr. Compare this to the approximately 20 gCO<sub>2</sub>/km reduction in both the EU and Japan between 2010 and 2015 (about 4g/yr) – the starting point for these countries was 20 years ago.
- It also ignores the difference in the vehicle markets, including the urban/rural make-up of the countries and the fact that the EU and Canada have vehicle manufacturing as industries<sup>23</sup>.

### Concluding comment

The consultation paper proposals seek a change in fleet composition within a very short time frame with very little surety of success, but with very large cost impacts on the NZ economy.

The NZ market has worked as it is because it has been influenced by consumer demand, and global supply. While it is now the right time to impose some improvement targets, those targets must be realistic without imposing undue costs on consumers. The targets set within the CCS proposals are too aggressive and unreasonable.

Further, because we do not manufacture motor vehicles like Japan, China, or Korea and therefore don't have the ability to change our mix to suit. We are at the mercy of our suppliers.

Again, being a small RHD market our options can be limited. When EVs reach the promised 'price parity' position, world demand will accelerate, and we will likely struggle to get an appropriate share. The cost imposition on consumers who may have no option other than conventional ICE vehicles will have negative economic consequences. The market and the economy must move in sync at a level which can be accommodated.

With these reservations in mind MTA proposes the following outcomes:

- A. Introduce a revised CCS programme (per the MTA counterproposal) and discard the proposed CCD scheme.
  - a. The industry needs a long-term strategy, beyond the immediate target of 2025.
  - b. This can best be achieved via a CCS type plan that sets the important benchmarks and allows reasonable time for industry to plan to meet those requirements.
  - c. Advance industry signals are an important element which local importers can use to support their orders for latest technologies from suppliers.

*Or*

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<sup>23</sup> In that it is easier to influence through regulation a manufacturer based in your country than it is to influence a manufacturer to whom your market equates to a rounding error in their accounts.

- B. Second option (not preferred) is to proceed with CCD scheme and discontinue the proposed CCS scheme.
- a. MTA does not fully favour the CCD proposal because such a scheme best serves short term targets (and addressing climate change is a long-term goal).
  - b. The proposed CCD scheme based on CO<sub>2</sub> emissions bands is also a more 'blunt tool' because it does not recognise vehicle size in the same way the CCS scheme does using weight bands.
  - c. It is unfortunate that the CCD scheme has been the subject of all publicity so far. The 'devil is in the detail' and that is where the CCD is disadvantaged versus a suitable CCS plan.

The last point to consider is the application of any scheme(s). MTA contends it is very important the programme(s) be applied at the border. This is:

- the simplest mechanism to apply,
- equitable to all parties,
- less costly to administer with simpler accounting and administration requirements and
- eliminates scope for avoidance strategies and the consequential audit/enforcement measures<sup>24</sup>.

The consumer messaging at point of sale is still simple. The Vehicle Fuel Economy Label (or a revised CIN) can carry the emissions profile and a message saying *"this vehicle has incurred a rebate (or tax) of \$X in recognition of its CO<sub>2</sub> emissions profile"*.

MTA is happy to work with Government in the design of a suitable scheme. We look forward to discussing our submission with the Minister and officials soon.

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<sup>24</sup> MTA has discussed its counterproposal with other industry-related associations. We are aware that our submission that the imposts be applied at the border is not fully supported by all players in the industry. Again, this argues in favour of the Government convening an industry working group so that such differences can be examined and addressed.

## Appendix 1 Scenarios of net penalties and credits to motor traders

The tables in this appendix show an assessment of the net benefits (positive \$ values) or costs (negative \$ values) to motor industry traders arising from the gradual introduction of the CCS policy for three scenarios of emissions reduction from 2022 to 2025<sup>25</sup>:

- **Business as usual (BAU):**
  - This scenario maps the long run rate of emission reductions in New Zealand from the new vehicle sector which is about 1.5% per year.
  - The excess (deficit) compared with the annual emissions standard from 2022 to 2025 produces penalties (credits) for traders, estimated using a rate of \$100/g/CO<sub>2</sub>/km.
  - Aggregated over engine types (diesel, EV, petrol etc) and vehicle weight these values are shown as net benefits (positive) or costs (negative) to traders.
- **Best achievable rate (BAR):**
  - This scenario attempts to map what might be the best industry could achieve in emission reductions by 2025.
  - It is just a little over double the long-term rate of emission reductions since 2006 and the rate increases slightly as we head towards 2025.
  - It would require a higher rate of hybrid, PHEV and BEV adoption with some reduction in the rate of light commercial vehicle sales.
- **Amount to reach credit in 2025 case (ARC):**
  - This scenario attempts to map CO<sub>2</sub> reductions sufficient to reach a positive credit position in 2025.
  - It requires an average minimum of 32 percent across the industry model range to reach a small credit.
  - It would require more Hybrid, PHEV and BEV models than are available prior to about 2024/25 and is considered unachievable.

### Headline results:

The cumulative industry penalty (BAU and BAR) or credit (ARC) – as a net outcome – for the years 2022 to 2025 is:

1. BAU: **-\$1,357 million**
2. BAR: **-\$662 million**
3. ARC: **\$19 million**

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<sup>25</sup> Note – this analysis is for the new car sector only. It is only logical that there will be greater financial impact when the used import sector is also considered in these calculations.



### Key to Tables

Engine		Weight	kg
		1	Up to 1000
D	Diesel	2	1000 to 1200
EV	Electric Vehicle	3	1200 to 1400
P	Petrol	4	1400 to 1600
PH	Petrol Hybrid	5	1600 to 1800
PHEV	Petrol Hybrid Electric Vehicle	6	1800 to 2000
PXEV	Petrol Extended Electric Vehicle	7	2000 to 2200
		8	2200 to 2400

Table 1. Business as usual case (\$)				
Sum of weighted difference with \$100 penalty				
BAU case	2022	2023	2024	2025
<b>D</b>	<b>-26,422,547</b>	<b>-146,983,596</b>	<b>-258,364,045</b>	<b>-375,767,894</b>
3	265,525	143,700	21,875	-99,950
4	1,922,189	344,052	-1,140,285	-2,718,422
5	3,359,353	-7,109,596	-16,976,945	-27,445,894
6	-16,641,215	-57,761,420	-96,710,825	-137,831,030
7	-26,646,289	-72,760,852	-114,417,015	-158,302,378
8	11,317,890	-9,839,480	-29,140,850	-49,370,220
<b>EV</b>	<b>21,470,200</b>	<b>18,920,400</b>	<b>16,518,400</b>	<b>13,996,800</b>
3	525,600	464,400	403,200	342,000
4	7,218,600	6,356,000	5,538,800	4,676,200
5	7,866,000	6,946,000	6,072,000	5,152,000
7	2,706,400	2,380,000	2,080,800	1,768,000
8	3,153,600	2,774,000	2,423,600	2,058,600
<b>P</b>	<b>-2,077,907</b>	<b>-125,456,476</b>	<b>-243,266,845</b>	<b>-367,144,014</b>
1	581,019	-2,308,308	-4,756,835	-7,646,162
2	5,617,675	-6,439,700	-18,497,075	-31,479,250
3	11,715,793	-15,487,569	-42,690,931	-69,894,293
4	3,977,414	-40,147,048	-81,601,510	-125,725,972
5	-7,806,236	-29,031,955	-49,024,674	-70,250,393
6	-6,290,504	-13,283,072	-19,903,640	-26,896,208
7	-4,874,035	-11,957,380	-18,354,725	-25,095,070
8	-4,999,033	-6,801,444	-8,437,455	-10,156,666
<b>PH</b>	<b>31,591,545</b>	<b>23,044,860</b>	<b>14,936,175</b>	<b>6,353,290</b>
2	2,234,480	1,557,440	880,400	153,760
3	505,513	391,684	277,855	164,026
4	11,167,577	8,256,036	5,510,295	2,598,754
5	15,989,230	11,634,640	7,517,050	3,162,460
6	498,526	330,568	171,010	3,052
8	1,196,219	874,492	579,565	271,238
<b>PHEV</b>	<b>12,797,710</b>	<b>10,928,680</b>	<b>9,152,650</b>	<b>7,291,820</b>
3	702,786	606,448	510,110	413,772
4	1,585,213	1,368,884	1,164,155	947,826
5	1,968,551	1,664,068	1,375,385	1,070,902
6	7,348,846	6,295,528	5,291,410	4,238,092
7	398,432	325,376	258,720	188,864
8	793,882	668,376	552,870	432,364
<b>PXEV</b>	<b>565,068</b>	<b>494,424</b>	<b>423,780</b>	<b>353,136</b>
3	565,068	494,424	423,780	353,136
<b>Grand Total</b>	<b>37,924,069</b>	<b>-219,051,708</b>	<b>-460,599,885</b>	<b>-714,916,862</b>

Table 2. Best achievable rate case (\$)				
Sum of weighted difference with \$100 penalty				
BAR case	2022	2023	2024	2025
<b>D</b>	<b>29,904,106</b>	<b>-71,881,392</b>	<b>-164,486,290</b>	<b>-263,114,588</b>
3	308,050	200,400	92,750	-14,900
4	2,534,378	1,160,304	-119,970	-1,494,044
5	8,048,506	-857,392	-9,161,690	-18,067,588
6	3,270,970	-31,211,840	-63,523,850	-98,006,660
7	-4,487,578	-43,215,904	-77,485,830	-113,984,956
8	20,229,780	2,043,040	-14,287,700	-31,546,440
<b>EV</b>	<b>21,470,200</b>	<b>18,920,400</b>	<b>16,518,400</b>	<b>13,996,800</b>
3	525,600	464,400	403,200	342,000
4	7,218,600	6,356,000	5,538,800	4,676,200
5	7,866,000	6,946,000	6,072,000	5,152,000
7	2,706,400	2,380,000	2,080,800	1,768,000
8	3,153,600	2,774,000	2,423,600	2,058,600
<b>P</b>	<b>54,925,186</b>	<b>-49,452,352</b>	<b>-148,261,690</b>	<b>-253,137,828</b>
1	1,831,038	-641,616	-2,673,470	-5,146,124
2	11,061,550	818,800	-9,423,950	-20,591,500
3	23,802,907	628,582	-22,545,742	-45,720,066
4	23,794,028	-13,724,896	-48,573,820	-86,092,744
5	2,496,607	-15,294,830	-31,853,268	-49,644,706
6	-2,716,208	-8,517,344	-13,946,480	-19,747,616
7	-1,428,070	-7,362,760	-12,611,450	-18,203,140
8	-3,916,666	-5,358,288	-6,633,510	-7,991,932
<b>PH</b>	<b>33,820,890</b>	<b>26,017,320</b>	<b>18,651,750</b>	<b>10,811,980</b>
2	2,435,360	1,825,280	1,215,200	555,520
3	531,226	425,968	320,710	215,452
4	11,883,554	9,210,672	6,703,590	4,030,708
5	17,145,460	13,176,280	9,444,100	5,474,920
6	549,052	397,936	255,220	104,104
8	1,276,238	981,184	712,930	431,276
<b>PHEV</b>	<b>12,963,220</b>	<b>11,149,360</b>	<b>9,428,500</b>	<b>7,622,840</b>
3	709,572	615,496	521,420	427,344
4	1,597,426	1,385,168	1,184,510	972,252
5	2,003,102	1,710,136	1,432,970	1,140,004
6	7,436,092	6,411,856	5,436,820	4,412,584
7	409,664	340,352	277,440	211,328
8	807,364	686,352	575,340	459,328
<b>PXEV</b>	<b>567,336</b>	<b>497,448</b>	<b>427,560</b>	<b>357,672</b>
3	567,336	497,448	427,560	357,672
<b>Grand Total</b>	<b>153,650,938</b>	<b>-64,749,216</b>	<b>-267,721,770</b>	<b>-483,463,124</b>

Table 3. Amount to reach credit in 2025 case (\$)				
Sum of weighted difference with \$100 penalty				
ARC case	2022	2023	2024	2025
<b>D</b>	<b>42,421,140</b>	<b>-21,813,256</b>	<b>-70,608,535</b>	<b>-87,876,112</b>
3	317,500	238,200	163,625	117,400
4	2,670,420	1,704,472	900,345	410,544
5	9,090,540	3,310,744	-1,346,435	-3,479,112
6	7,695,900	-13,512,120	-30,336,875	-36,057,640
7	436,580	-23,519,272	-40,554,645	-45,046,744
8	22,210,200	9,964,720	565,450	-3,820,560
<b>EV</b>	<b>21,470,200</b>	<b>18,920,400</b>	<b>16,518,400</b>	<b>13,996,800</b>
3	525,600	464,400	403,200	342,000
4	7,218,600	6,356,000	5,538,800	4,676,200
5	7,866,000	6,946,000	6,072,000	5,152,000
7	2,706,400	2,380,000	2,080,800	1,768,000
8	3,153,600	2,774,000	2,423,600	2,058,600
<b>P</b>	<b>67,592,540</b>	<b>1,217,064</b>	<b>-53,256,535</b>	<b>-75,794,872</b>
1	2,108,820	469,512	-590,105	-1,257,176
2	12,271,300	5,657,800	-350,825	-3,655,000
3	26,488,932	11,372,683	-2,400,553	-8,115,714
4	28,197,720	3,889,872	-15,546,130	-24,441,056
5	4,786,128	-6,136,747	-14,681,862	-17,591,414
6	-1,921,920	-5,340,192	-7,989,320	-8,627,584
7	-662,300	-4,299,680	-6,868,175	-7,482,360
8	-3,676,140	-4,396,184	-4,829,565	-4,624,568
<b>PH</b>	<b>34,316,300</b>	<b>27,998,960</b>	<b>22,367,325</b>	<b>17,747,720</b>
2	2,480,000	2,003,840	1,550,000	1,180,480
3	536,940	448,824	363,565	295,448
4	12,042,660	9,847,096	7,896,885	6,258,192
5	17,402,400	14,204,040	11,371,150	9,072,080
6	560,280	442,848	339,430	261,296
8	1,294,020	1,052,312	846,295	680,224
<b>PHEV</b>	<b>13,000,000</b>	<b>11,296,480</b>	<b>9,704,350</b>	<b>8,137,760</b>
3	711,080	621,528	532,730	448,456
4	1,600,140	1,396,024	1,204,865	1,010,248
5	2,010,780	1,740,848	1,490,555	1,247,496
6	7,455,480	6,489,408	5,582,230	4,684,016
7	412,160	350,336	296,160	246,272
8	810,360	698,336	597,810	501,272
<b>PXEV</b>	<b>567,840</b>	<b>499,464</b>	<b>431,340</b>	<b>364,728</b>
3	567,840	499,464	431,340	364,728
<b>Grand Total</b>	<b>179,368,020</b>	<b>38,119,112</b>	<b>-74,843,655</b>	<b>-123,423,976</b>

## Appendix 2: Evidence base for MTA's submission

### 1. Clean car policy must be well designed

MTA agrees with the need to act and move to a low emissions economy. There are certain features of CCD and CCS policies that are useful. They need to be introduced in a careful way. It is not reasonable to fully introduce both policies simultaneously.

#### *A well- designed CCD policy is desirable*

1. In general, a CCD type policy encourages consumers to demand efficient products and drive less (Yang, 2018). It is a useful policy option because it involves a market-based instrument that can affect consumer behaviour in an efficient way. They are recognised as providing signals to consumers of the fuel efficiency and emissions levels associated with vehicles (D'Haultfoueuille et al, 2013).
2. CCD type policies observed, under the right conditions, lead to an unambiguous net effect of reducing emissions (Bunch, 2011). The right conditions include the prevailing economic environment and the level of the rebate set (D'Haultfoueuille et al, 2013; Gillingham, 2013).
3. Studies (Langer, 2005) suggest that both the rebate and the pivot should be reset periodically to achieve the benefits desired. This can be administratively complex.
4. The consultation document is uncertain on the level of the rebate and invites comment. This indicates that further investigation of this proposed policy is necessary prior to any implementation<sup>26</sup>.
5. Costs and benefits of CCD policies based only on responses of demand to price changes cannot account for consumer choices – they cannot tell a complete story (Langer, 2005).

#### *A CCS policy may have uncertain impacts*

6. In general, a CCS type policy encourages manufacturers to build efficient products (Yang, 2018 ). Manufacturers can make changes in production markets and supply markets to adjust to vehicle performance standards.
7. In New Zealand, the CCS policy is proposed to be applied to importers who function only in the supply market. In New Zealand the potential impact of the CCS policy on importers in supply markets and consumers in retail markets is unclear. For example, importers may respond by passing on fees to retailers and consumers, or by exiting the market.
8. Because the CCS policy in New Zealand cannot affect the composition of global supply and cannot precisely match it, there is a risk that it will entrench a composition of supply that will differ from a long-term global composition that meets emission standards at a lower average price to consumers.

#### *CCS policies and CCD policies are similar*

9. Both CCS and CCD type policies (Gillingham, 2013) are focused only on the consumer's decision of what vehicle to buy. They compare to a fuel tax which affects both that decision and the decision of how much to drive.

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<sup>26</sup> However, the consultation paper notes that decisions will be made soon after the analysis of submissions, so it is unclear how the Government would intend to consult on the final rebate levels.

10. Studies (Gillingham, 2013) show that CCD type policies can be designed to be similar or even equivalent to CCS policies.

## 2. Cost benefit analyses for consultation document are unsatisfactory

MTA advocates that the cost benefit analyses (CBAs) for the proposed CCS and CCD policies be revised. The CBAs underpinning the proposed CCS and CCD policies are unsatisfactory. They can be improved by investigating plausible scenarios developed in consultation with the motor trade industry and by including a greater consideration of the effect of consumer preferences for motor vehicles.

*CCS policy cost benefit analysis (Ministry of Transport, 2018a)*

### **Key assumption is not substantiated**

11. The CBA to underpin the policy for the CCS is unsatisfactory for a number of reasons. To illustrate this, we focus on the estimation of fuel savings to vehicle users, as these are estimated as 96.5 percent (\$6.2) of net benefits.
12. The baseline for the CBA is well understood. In section 3.2, the paper explains that for the CBA, the baseline annual growth rates in vehicle registrations to 2040 were based on the “slow EV uptake” scenario of the Vehicle Fleet Emissions Model (VFEM).
13. The key assumption underpinning the cost benefit analysis is not substantiated. In section 4.1, the “key assumption” stated in the analysis that

*the monetary penalties for not meeting the CO<sub>2</sub> emission target provide a sufficient incentive for importers to change the mix of the imported fleet in order to meet the emission target by 2025 (Ministry of Transport, 2018a, p9).*

14. The “sufficiency” of the incentive is not quantified nor substantiated in any way. No pathway over time is given for the change to occur. The magnitude of the change is very great (para 32 below) and there are many reasons why it is unattainable.

### **Unreliable parameter is used for estimating impacts**

15. In section 4.2(4) (the modelling approach) the number of imported vehicles that will need to be substituted by those with better CO<sub>2</sub> levels over the period to 2025 are estimated. This number is based on the “effort” or CO<sub>2</sub> emissions improvement required of vehicle importers. This effort is estimated using a formula with a multiplier denoted “a”. This appears to be the slope of a linear regression equation with a correlation coefficient of 0.0708, shown on page 12.
16. This correlation is highly likely to be an insignificant correlation and should not be used for a reliable estimation.
17. According to s4.2(4) a “least effort” approach was assumed whereby vehicle traders, in seeking to achieve the CCS emission standard for their fleet are assumed to sell more vehicles that are exactly at the right emissions target.

### **An arbitrary unsubstantiated assumption is made**

18. Then a further assumption is made (s4.2(5)) that “each importer will import 30 percent more EVs over-and-above those assumed in the VFEM ‘slow EV uptake’ scenario.

19. This assumption is completely unsubstantiated; neither quantitative nor qualitative evidence is supplied.

#### **Implausible assumptions for technology and technical specification**

20. Importantly, the paper acknowledges that it has no information about future technology impacts (see bottom of p14, top of p15).
21. This analysis assumes that the on-road emissions of hybrids will correspond with theoretical levels. But, as noted below (para 35), on road emissions are likely to be higher.

#### **Insufficient clarity on key data used**

22. There is insufficient clarity on the price elasticities used. They are vital to the analysis and how they are derived should be reported.
23. There are key data that the CBA should disclose, but doesn't, such as (p12) the "projected, sales-weighted GHG conversion factor" and the workings of the Vehicle Fuel Efficiency Model (VFEM).

*CCD policy cost benefit analysis (Ministry of Transport, 2018b)*

#### **Estimated potential net benefits have a large spread, including negative values**

24. This CBA underpins the policy for the CCD. It needs more clarity. To illustrate this, we focus on the estimation of fuel savings to vehicle users, as these are estimated as 93.3 percent (s6.2) of net benefits. Overall the net benefits estimated span a wide range, including negative values (net detriments).

#### **Price elasticities data and use are vital and need more explanation**

25. The pivotal determinant of the CBA is the set of cross and own price elasticities provided in Table 9 of Annex 2. The table is dominated by large and negative "own price" elasticities so that sales of vehicles with a particular CO<sub>2</sub> emission level are expected to fall (by -1.83 percent to -4.30 percent) as their price rises by 1 percent. Accompanying those changes, the sales for all other CO<sub>2</sub> emission vehicles, of both higher and lower emission levels, generally rise by comparatively smaller percentages, though some are sizable.
26. The derivation of this table of elasticities needs a clearer explanation within the text, given its crucial importance. The current limited explanation is given in section 4.3, which refers to source data from publications.
27. The price elasticities are used to estimate changes to fleet composition from 2020 to 2025, shown graphically in Figure 7. The methodology for estimation of changes to fleet composition also needs a clearer explanation.

#### **Estimates of net benefits have a large spread that cannot be overlooked**

28. In section 7, a sensitivity analysis is reported that uses simulations of key parameters. This obscures the fact that the overall net benefits are reported (Table 1) in a range from -\$82 million (a net detriment) to \$1,513 million. The 90 percent confidence interval produce by the sensitivity analysis is from \$111 million to \$821 million.

29. The sensitivity analysis does not change the very large spread of the estimate of net benefits. Reporting the mid-range as \$413 million in Table 1 obscures the likelihood that the actual value is much lower.

#### **A number of knowledge gaps exist**

30. This analysis assumes (as for the CCS case above) that the on-road emissions of hybrids will correspond with theoretical levels. Hence the potential CO<sub>2</sub> emission reductions are overstated. This would tend to shift the spread and the mid-range to lower levels.
31. The report itself identifies several uncertainties associated with the analysis, such as:
- p10, bottom line – further analysis will need to be carried out to understand the sensitivity of the price of electric vehicles on the effectiveness of the feebate scheme.
  - p11, 2<sup>nd</sup> para from bottom – incomplete information of vehicle prices by vehicle make and model makes it impossible to estimate the volume-weighted average prices, particularly for used vehicles.
  - p14, “...the extent of the (fuel cost savings) will depend on a range of factors, including retail fuel prices, the user’s travel needs, and the type of vehicle purchased, which in turn depends on consumer preferences and choice availability.

### **3. Technology change required is a significant constraint**

In MTA’s view the proposed target of low emission vehicles required of consumers in a long-term trajectory is unrealistic because:

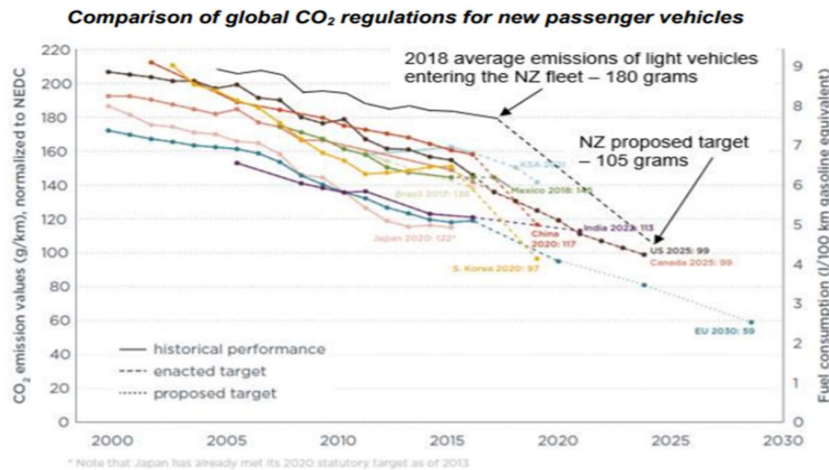
- pace of technological change is unachievable
- global supply of low emission vehicles is insufficient
- theoretical standards of low emission vehicles are not achievable “on road”
- a market needs to develop to provide and recycle batteries
- widespread charging infrastructure is yet to develop
- electric vehicle service networks are yet to develop.

#### **Pace of technological change is too great**

32. The pace of change in emission standard assumed in the proposed policy is considered by many unrealistic, as articulated by a motor industry leader:

*The movement from today’s 180 gCO<sub>2</sub>/km average to the target of 105 gCO<sub>2</sub>/km in 2021, or even by 2025, is a very steep change. The drop required is far steeper than has been achieved elsewhere. Change at this pace will have severe impacts on the NZ public and economy.*





Source: ICCT (January 2019) *Policy update: CO<sub>2</sub> emissions standards for passenger cars and light-commercial vehicles in the European Union*. Note: the Trump administration has removed the US 2025 target.

### Global supply of low emission vehicles is insufficient

33. The proposed CCS and CCD policies will be constrained by the global supply of low emission vehicles. There is considerable uncertainty about such supply, as noted in the Regulatory Impact Statement (Ministry of Transport, 2018c) (RIS):

*There is a high level of uncertainty about the rate at which the range of low emission vehicles, including EVs, will expand globally and in New Zealand. It is not known when New Zealand could expect to have low emission alternatives for the range of conventional vehicles currently available. It is also not known how quickly vehicle suppliers will alter their fleet profiles following changes in consumers' purchasing preferences (RIS, p10).*

34. In view of a motor industry leader it is likely that low emission vehicles available globally are unsuitable for achieving safety standards and fuel efficiencies on New Zealand roads:

*An argument presented is that Japan has managed to comply with a 105gm average since 2014. However, the long term mix of vehicles in Japan includes super small cars. These cars are not designed for open road use, nor do they have New Zealand's expected safety requirements*

*The EU has a more stringent target. There is considerable doubt about how the EU will meet its targets. The EU has favoured small engine vehicle derivatives that have been found to be underpowered in NZ's hilly conditions. Experience shows that a underpowered vehicle, pushed to its limits, does not result in efficiency gains over a more appropriately configured vehicle.*

### Theoretical standards of low emission vehicles are not achievable "on road"

35. It is incorrect to assume that theoretical emissions levels of low emission vehicles will be achieved "on-road". Some consumers will change from petrol to diesel vehicles which have lower emission levels but not at levels of low emission vehicles. This is noted in the RIS:

*The fuel efficiency standard focusses on reducing CO<sub>2</sub> emissions. This could lead to an increased uptake of diesel vehicles and a resultant deterioration in air quality. This is because diesel vehicles tend to be relatively fuel efficient compared with petrol and they emit relatively lower levels of CO<sub>2</sub> emissions. (RIS, p5)*

36. Further, emission levels of hybrid vehicles depend on petrol and diesel fuel actually used and not the theoretical potential use of the electric motor. In the view of a motor trade industry leader the benefits of the proposed polices assume a theoretical emissions standard of vehicles that is not achieved on-road:

*The system will rely on a supply of hybrids, plug in hybrids, and electric vehicles. With both hybrids and plug in hybrids the CO<sub>2</sub> emission is determined by the rules applied to the test; which is not what happens on the road. Both hybrids, when driven on the open road, are simply conventional engines carrying a heavy battery. Across the NZ fleet, these vehicles will not achieve the theoretical gains. It is worth noting that the UK and some other EU countries have taken subsidies away from these vehicles. Will there be a supply of these vehicles to NZ.*

37. An EV battery does not perform at full power for its lifetime. It will exhibit a declining performance as it ages.

#### **A market needs to develop to dispose of and recycle batteries**

38. The lack of safe recycling and disposal facilities for electric batteries is a serious constraint on long-term sustainability of EVs. This is an issue recognised globally:

<https://www.theguardian.com/sustainable-business/2017/aug/10/electric-cars-big-battery-waste-problem-lithium-recycling>

39. Lithium and nickel used for electric batteries are scarce resources. Exploration and mining of them and recycling and disposal of their products produces sizable quantities of greenhouse gases. The RIS notes:

*As half of all vehicles entering the fleet are used-imports, it will be important that a market for replacement batteries develop. Currently, it is difficult to source a replacement battery. Nissan New Zealand does not offer them because imported Nissan Leafs are not “their cars”. However, importers of used-EVs will eventually have to support the vehicles they sell by developing a market for replacement batteries and other specialised parts<sup>27</sup>.*

*As well, the increase in EVs will result in an increase in used lithium batteries. The Ministry for the Environment has begun working with industry stakeholders to develop a proposal for a mandatory product stewardship scheme for lithium batteries, to ensure that spent batteries are recycled or reused instead of becoming potentially hazardous waste. (RIS, p44)<sup>28</sup>*

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<sup>27</sup> While MTA welcomes this comment, there has been a used-import car market for over 30 years in New Zealand and no substantive steps by importers (and no encouragement by the regulator, MBIE) towards standing behind the Consumer Guarantees Act requirement that importers facilitate access to parts and servicing for goods imported. The recent Takata airbag recall has shown how the used car market has generally relied on the new car suppliers to provide technical support for imported vehicles.

<sup>28</sup> There is also the wider question of how older vehicles are moved out of the fleet. A product stewardship scheme for end-of-life vehicles should be considered. Currently, there is a very small market for car bodies. Prices paid by dismantlers and recyclers for cars range from \$0 through to \$100 and many scrap yards have strict conditions about the amount of vehicle lubricants and other components that remain on the vehicle.

### **Widespread charging infrastructure is yet to develop**

40. The proposed changes to low emission vehicles sought by the proposed CCS and CCD policies will likely be constrained by availability of infrastructure and the affordability of consumers and business. As the RIS notes (p10), the cost benefit analysis:

*has assumed that the charging infrastructure for EVs will match the rate of EV uptake. (RIS, p4)*

and

*Infrastructure is developing but is still of the nature where it is designed to serve only a few vehicles daily. EV recharging infrastructure is not yet mainstream. Infrastructure costs will also include EV owners and corporate owners who choose to put in charging units at their residence/vehicle depots. (RIS, p4)*

Further, as noted by the RIS:

*As well, if the goal is to achieve a mass adoption of EVs over time, then central and local government with the private sector will need to consider how we can future proof New Zealand for the uptake of EVs. This includes ensuring:*

- there is sufficient charging infrastructure in residential streets with on-street parking
- all new residential homes, non-residential buildings and carparks are built to be EV ready
- workplaces have adequate access to charge-points. (RIS, p43)

### **Electric vehicle service networks are yet to develop**

41. The viability of a fleet of EVs depends on the availability of a network of EV service stations. Limited prevalence of relevant skills and infrastructure will constrain EV uptake. As noted by the RIS:

*Consumers need to have confidence that their EVs can be serviced by skilled technicians. In particular the transmission complexities of plug-in-hybrids and extended range EVs may require vehicle technicians to receive significant training. Franchise dealers offering EVs will meet the demand for service provision. For many smaller New Zealand towns there are only the traditional mechanic at the local service station. It is unclear to what extent EVs will be able to be serviced by the generalist mechanics or even auto-electricians. (RIS, p43)<sup>29</sup>.*

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<sup>29</sup> Again with reference to the need for a “just transition”, there are a few suppliers offering short courses focused on the safe handling of EVs in a workshop. MITO has developed a Level 5 qualification that requires approximately 9-12 months of study (along with the associated costs for training).

#### 4. Motor industry needs to be properly consulted

In MTA's view the proposed policies would produce considerable impacts on markets, participants and administration of the motor trade industries. The government needs to develop a shared understanding with stakeholders of policy outcomes sought and a pragmatic and acceptable way to achieve them.

##### **Influence of proposed policy on vehicle markets**

42. In the proposed CCS policy, there are different penalties for vehicles imported by new vehicle importers, used vehicle importers and non-commercial importers of less than three vehicles. This difference will disadvantage commercial importers. The proposed CCS policy has a penalty \$100, \$50 and zero per gCO<sub>2</sub>/km for new, used and private vehicles respectively. A motor industry leader gives the following potential scenario:

*Take Ford Ranger XLT. New it will have car tax of \$9300. The same vehicle imported from an Australian dealer by a motor vehicle trader will be taxed at \$4650. The same vehicle imported by an individual will have no tax. Private imports will explode. Some official distributors will abandon New Zealand.*

43. The proposed CCS policy suggests collusion of motor vehicle dealers to achieve shared emissions standards levels. This is perceived by some to be contrary to s30 of the Commerce Act (1986) that prohibits entering or giving effect to a cartel provision<sup>30</sup>. In the view of a motor industry leader:

*The scheme allows different importers to group together to average their overs and unders. Aside from the fact that there will be few unders, such a scheme would be contrary to the provisions of the Commerce Act. To achieve the necessary co-ordination, competing firms would have to co-operate in price fixing.*

##### **Influence of proposed policy on risks and costs to business and consumers**

44. The exemption, under the proposed CCS policy, of vehicles imported by those other than motor vehicle dealers is expected by some to lead to the emergence of a "broker market" where skilled intermediaries brokers help non-dealer purchasers to import high emission vehicles. Such vehicles are not covered by safety standards required of licensed motor vehicle dealers. In the view of one motor industry leader:

*Private imports are excluded, that is a person who imports three or less vehicles per annum. It takes no imagination to foresee that private imports will explode in volume. This will be a severe problem for the official brand importer who will be expected to support all of the vehicles in NZ, including private imports for such things as warranty or recalls.*

45. The proposed CCS policy lacks certain detail about the timing for recognition of a vehicle import. Even with greater detail, importers are likely to be faced with some uncertainty about subsequent

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<sup>30</sup> MTA's proposal that imposts be applied at the border and not be tradeable would avoid this risk.

pricing of vehicles. One motor industry leader expects increased transaction costs to result for businesses:

*There will be a penalty of \$100 per gCO<sub>2</sub>/km that a supplier exceeds its fleet target over a 12-month period. There is no definition of when a vehicle counts in a given year. Is it based on registrations, arrival in NZ, when it is paid for by a customer? Somehow an importer has to control their sales, be it at registration or arrival into NZ. If an importer gets it wrong, they pay a penalty; If they under call, then they can bank the surplus. If an importer does not pass on a sufficient charge to each customer, then the importer pays the penalty; but the reverse does not apply.*

46. Under the proposed CCS policy importers are obliged to manage the mix of imports in ways that are inconsistent with supply logistics. This is expected by one motor industry leader to produce extra costs and reduced supply for consumers, even before consideration of the “feebate” adjustment due to the proposed CCD policy:

*The supply line to New Zealand for new vehicles is very long. From initial build commitment in a factory, to precise build order, to finished product, to shipping to New Zealand, to arrival and distribution within New Zealand; the whole process is usually 6-12 months; then it can be many months before a specific vehicle is actually sold to a customer. Delays and unexpected emergencies (eg ship sent away from NZ because of stink bug) do occur. It is virtually impossible for an importer to accurately predict the exact arrival dates months ahead. Added to this are uncertainties of when a specific vehicle is sold, usually anywhere between immediately and six months later.*

*Predicting the supply timing for a fleet is fraught with uncertainty, at best a rough estimate. Add in the penalty risk on the importer. Add in the fact that most vehicles will be paying a penalty. The outcome is that importers will have to add the penalty to each vehicle sold. The penalty for each vehicle will be added to the price.*

*This penalty is before and additional to the Fee Bate adjustment.*

#### **Influence of proposed policy on administrative complexity**

47. The proposed CCS policy does not sufficiently specify the definition of a marque principal who imports motor vehicles. According to one motor industry leader:

*New vehicles will be identified by the vehicle make, and the obligation to comply will be with the marque principal. This marque principal has to monitor all vehicles coming into NZ and ensure that its actual average CO<sub>2</sub> emissions is less than or equal to the required target for its fleet.*

*What is a marque principal? Are sub brands separate? When are sub brands considered together? If an importer brings in several brands, are they considered together? For example Peugeot, Citroen, and DS; or Toyota and Lexus.*

*Some companies, such as Sime Darby and Ateco, are importers of multiple marques from very different source suppliers. Are they one or many?*

48. The CCD policy as proposed has inherent administrative complexity that is burdensome for consumers and for business. This is highlighted by one motor industry leader:

*Discounts are a problem, how is it paid to the customer? The proposal openly supposes that some dealers might not pass on the full refund if it were processed through them. But if it is not then the only option is for the customer to be billed the full price and for them to claim the refund, introducing numerous cash flow and financing problems for the customer. The same cash flow problem will apply to the selling dealer if the Government is slow at refunding through them, it is difficult to manage a business when the customer pays less than the cost price when a vehicle is sold.*

The RIS also identifies compliance costs to business from the CCD policy.

*There would also be compliance costs to industry in displaying the fees and rebates, helping to make consumers aware of them, data entry/record keeping costs as well as transaction costs such as collecting the fees on behalf of the regulator. The detail of the scheme's design has yet to be finished but it will likely be reasonably complex and require industry involvement to work. Another potential cost to industry is to profitability as the government intervenes in market pricing (RIS, p4)*

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## Appendix 3: MTA responses to questions in consultation document

This section of MTA's submission responds to the questions posed within the discussion paper. The questions were not numbered so they have been addressed in the order set in the paper. The respective page number is referenced in each case.

Pg 14

### Please tell us what you think:

- Is the Clean Car Standard appropriate for New Zealand? If not, why?
- Is an average emissions target of 105 grams CO<sub>2</sub> per kilometre by 2025 an appropriate target for New Zealand? If not, why?
- What effect do you think the Clean Car Standard would have on vehicle supply and prices?

1. The principle of a CCS is appropriate, but the proposal as it stands is unsuitable on two fronts – the 105g target is too tough, and the resulting penalties are excessive. We also have significant concerns about the implementation processes – costly, bureaucratic and open to manipulation. The targeted timeline and magnitude of change is too aggressive for the industry to achieve without significant economic impact consequences. The 105g/km target by 2025 requires a g/km change rate of about 10.7 g/km/yr over the 7-year period from 2018 to 2025. Estimates taken from the graph provided on page 11 of the discussion paper indicate an average achievement/target rate from year 2000 to 2025 for Japan, EU, Canada, and USA collectively of approximately 4 g reduction per year. Applying a similar rate of change to NZ across the 7-year period (2018 to 2025) would result in a 2025 target of approximately 150 g – well above the 105 g target.
2. No – as commented in point 1 above, a target of 105 grams CO<sub>2</sub> per kilometre by 2025 requires an annual change of 2.7 times the average rates achieved across other similar markets. A more realistic target would around 150gms CO<sub>2</sub> per kilometre by 2025. It is relevant to observe that in the years to come if EVs become available at prices comparable to mass market ICE vehicles and that they be sourced in suitable numbers to meet demand it is very likely a revised target of 150 g/km could be exceeded by significant margin. But that prospect will turn on the availability of suitable product volumes. Many commentators suggest that when EVs eventually reach a price-parity position, world-wide demand will exceed supply by considerable margin. NZ is unlikely to take priority. So even when EVs become a realistic alternative, there is no surety that NZ demand will be able to be met. If that



scenario plays out, the proposed policy will have imposed significant cost, administration and societal burden on New Zealand with no real likelihood of target achievement.

3. Based on the new vehicle modelling data provided by MIA, the CCS policy gives rise to some very significant impacts. Some models and even brands may discontinue. CCS will help promote demand for EVs and low fuel use alternatives (eg hybrids, PHEV's and diesel-powered vehicles) when opportunities exist. But that must be balanced with predictions that supplies of such vehicles, especially EVs, PHEV's and hybrids might not be accessible in volumes suitable to meet demand. Conversely the policy as proposed imposes very significant price increases on almost all petrol ICE vehicles. Several perhaps unintended consequences arise. Firstly, very small cars (weight band 1 in the MIA data) a group expected to benefit from such a policy (eg Suzuki Ignis, Baleno, Swift, and others) will be disadvantaged and face significant price increases.

Secondly, the proposed policy positions diesel powered vehicles in a substantially better position than petrol powered equivalents, (eg Ford Mondeo diesel, Holden Commodore, Hyundai i30, VW Passat, and others). This is because diesel is more fuel efficient than petrol in a 'like-for-like' vehicle, and therefore attracts more favourable treatment. So rather than being priced at a premium over equivalent petrol, diesel models will end up significantly cheaper. Example: Ford Mondeo, diesels goes from an existing price premium of \$1500 to a substantial \$8,832 discount:

Model	Current RRP	2022 CCS	Revised RRP	2022 CCD	Revised RRP
Trend Petrol	\$49,200	+\$1,814	\$51,014	+\$2,000	\$53,014
Trend Diesel	\$50,790	-\$5,408	\$45,382	-\$1,200	\$44,182
Variance	\$1,500	\$7,212	\$5,632	\$3 200	\$8,832

The expected outcome of this type of scenario is that importers might move to source more diesel models, if able, assuming other technologies such as hybrid are not otherwise available. This would occur at the very time diesel is losing popularity in many overseas markets' due problematic emission levels.

Thirdly, there are also situations exposed within industry modelling that shows disparity between CCS and CDD outcomes. For example, a particular vehicle might earn a penalty under CCS but be subject to a rebate under CCD. Models impacted in this way include: Ford Transit and Everest, Holden Spark, Honda Jazz, Nissan Navarra (some models), VW Golf (some models), Suzuki Baleno and others. The design of the CCS and CCD programmes should not be contradictory – a very difficult message to sell.



**Please tell us what you think:**

- Do you consider the overall process outlined for the Clean Car Standard is workable? If not, why?
- The Clean Car Standard will cover new vehicles and used vehicles being brought into New Zealand. Should people who import three vehicles or less be exempted? If not, why?

4. No. The proposed rate of change is too quick and the consequences of getting it wrong will be catastrophic for many importers, and for the economy – massive cost increases for potentially minimal gain if EV's are not price competitive and available in suitable volumes to meet the potential demand. Also, the administration burden and associated costs required to comply will also be significant. MTA recommends the CCS impact be administered as a tax or impost at the border. Further the rate of change in CO2 settings will be too significant for industry to accommodate. Forecasting will be impossible with significant potential stock imbalances.
5. No party should be exempt. The CCS programme should be applied to all importers (both corporate and private) otherwise 'avoidance' strategies will quickly develop. The price impacts of the CCS programme will be so significant that policy avoidance will be a profitable strategy.

**Please tell us what you think:**

- Do you support phasing-in the 105 grams CO<sub>2</sub> per kilometre emissions target by:
  - adopting multiple targets that progressively lower to 105 grams? OR
  - using the increasing percentage of fleet approach?

Please explain why you prefer the approach you have chosen.

- Do you support the timeframe for the phase in period? If not, why?

6. No comment – unable to conduct the required assessments and analysis. In any event, MTA does not support the 105gm target itself.
7. No. See responses under response numbers 1,2, and 3 above

**Please tell us what you think:**

- Do you support adopting a weight-adjusted Clean Car Standard? If not, why?

8. A weight-adjusted approach is appropriate. It recognises different weight classes and therefore vehicle categories. In general customers buy a vehicle for a range of reasons including end use. A small car is not usually a relevant substitute for a load carrying pickup, and vice versa. But, as noted earlier the CCS based on weight-adjusted bands some times results in conflicting outcomes when compared to CCD proposal because the two schemes are based on different methodologies. Cases exist where an individual vehicle model may face a penalty under one scheme and a benefit under the other. For example, industry modelling shows a Suzuki Swift being subject to an \$1166 penalty under CCS and a \$200 benefit under CCD. That makes for a very difficult communication to a prospective consumer. On the one hand it's a 'bad' car, and on the other a 'good' car.

**Please tell us what you think:**

- Do you support a penalty of \$100 for each gram CO<sub>2</sub> per kilometre that a supplier of new vehicles exceeds its fleet target? If not, why?
- Do you support a penalty of \$50 for each gram CO<sub>2</sub> per kilometre that a supplier of used imported vehicles exceeds its fleet target? If not, why?

9. This question rests on the establishment of a realistic and achievable programme to achieve the prescribed CO<sub>2</sub> emissions annual reductions. Under the proposed CCS plan the targeted CO<sub>2</sub> emission advances across the five-year period are largely unachievable and the consequential penalties or rebates too significant, posing massive price increases on most buyers. If the 2025 target was more reasonable, the proposed \$100 penalty would be more realistic, while still sending an appropriate message. The proposal as it stands is unachievable. It could be moderated by setting a less aggressive CO<sub>2</sub> target (eg 125 to 150g), or a lower penalty (eg \$25 - \$50) for new vehicles, or a combination of such parameters.
10. There is some logic supporting a lower penalty regime for used imports because of their typically lower price than equivalent new vehicles, predicted lower usage levels and shorter remaining life span. Conversely it is also relevant to argue that all vehicles should carry the same penalty because the fleet CO<sub>2</sub> profile is a result of the

vehicles being imported. On that basis it makes no sense if new high fuel use vehicles are discouraged to the extent that used import alternatives become a realistic alternate import strategy. If vehicle demand is unable to be satisfied through one source pathway, that latent demand will be filled by alternate source pathways, if they exist. That is the nature of a dynamic market. Also used imports are not all 10 years old (ie the average age). In reality they cover a wide range of ages, including those over the 20-year exemption<sup>31</sup>. So rather than apply a fixed penalty rate, a reducing scale should be considered – a suggestion for discussion purposes only might be: 1- 3years 100% of new rate, 4 to 7 years 75% of new rate, and 7 years plus 50% of new rate. Recognise that even though cheap cars provide low cost motoring, they also serve to compete against the notion of other transport ideas including ride sharing, public transport, etc.

Pg 22

**Please tell us what you think:**

- Do you support the banking mechanism to provide flexibility for vehicle suppliers? If not, why?
- Do you agree that the new vehicle sector should have the added flexibility of borrowing? If not, why?
- Do you support an arrangement for suppliers to pool their vehicles together to comply as a group? If not, why?
- Do you agree that new and used vehicle suppliers should not be able to pool their vehicles and comply as a group? If not, why? If you think they should be able to comply as a group, how should the different lifetime emissions of new vehicles and used vehicles be measured and balanced?

11. MTA does not support the proposed CCS programme application methodology.

- The proposed mechanisms are complex and will impose significant costs on all sides – government, importer, dealer, and ultimately the customer.
- MTA recommends all fees and rebates be applied at the border in a similar manner to any other import tariff/tax/impost. That would result in a definitive approach and eliminate any scope to avoid the regime.

<sup>31</sup> A loop-hole exists in New Zealand's vehicle import laws whereby any vehicle older than 20 years is exempt from all import standards (exhaust emissions, frontal impact, etc). A separate category of import exists for collectibles and vintage vehicles – this 20-year exemption is not related to collectibles. In 2017, 4,000 vehicles built between 1992 and 1997 were imported.

- If an entry fee applies the importer should be required to pay the applicable impost, or claim the applicable rebate, in order to take possession of the vehicle.
- Consumer messaging can still be carried forward to ‘point of sale’ so that a prospective buyer could readily identify the application and quantum of any impost (positive or negative). The highly competitive nature of the retail motor vehicle market will help ensure fees or rebates are carried forward and reflected in retail prices.

Pg 23

**Please tell us what you think:**

- Do you support having the following penalties for misreporting data for the Clean Car Standard:
  - for an individual, a fine not exceeding \$15,000
  - for a person or an organisation other than an individual, a fine not exceeding \$75,000?
- If not, why?
- Do you support the sanction of disqualification from being a registered motor vehicle dealer if a supplier deliberately attempts to evade meeting annual targets? If not, why?

12. Penalties, fines or any other enforcement requirements will not be required if the scheme is administered in the manner proposed by MTA – ie as a tax at the border, see response 10 above. Put simply there would be no opportunity to cheat the system, or for any enforcement regime. In essence it would be self-regulating.
13. If the suggestion posed in answer 12 was implemented there would be no way for any party (trader or private importer) to evade the scheme.
14. If the MTA proposal is not adopted, then the sanctions seem appropriate. MTA does query how enforcement will be resourced and implemented. Oversight of register motor vehicle traders is currently the responsibility of MBIE’s Trading Standards team. MTA considers that the Trading Standards team is under-resourced to carry out its functions. Will the NZTA be empowered to follow through with the above sanctions? Will there be cross-department coordination of oversight?

**Please tell us what you think:**

- Do you support amending the Fuel Consumption Information Rule so that only vehicles tested to the WLTP, NEDC, the JC08, and the American Federal Test Procedure meet requirements for entry certification? If not, why?

15. Yes. A problem with any fuel economy scheme rests in the application of different fuel use methodologies. In that context hybrids, PHEVs, and even small engine turbos can fare much better in some prescribed tests than in longer-term real-world use. This may result in 'unfair' recognition of such vehicles relative to other normally aspirated ICE powered vehicles. In the longer term WLTP will become the standard measure providing more reliable, although not perfect, fuel use ratings.

**Please tell us what you think:**

- Do you agree with the proposed process for setting future emission targets? If not, what would you change and why?

16. In keeping with our recommendations proposed within response number 1,2, and 3 above, MTA recommends a longer-term CO2 reduction plan be prescribed. A significant criticism of the schemes proposed within the consultation paper is that lead times are too short and the magnitude of change is too great. This could be avoided with better long-term planning.

## CLEAN CAR DISCOUNT

Pg 27

**Please tell us what you think:**

- Is the Clean Car Discount appropriate for New Zealand? If not, why?

17. The positives to be drawn from the CCD programme is that it provides a valuable signalling mechanism to help influence consumer action. It is simple in construct and easy to understand at a consumer level. But the application at retail is burdensome and will be open to abuse. To control that aspect enforcement action will be required to monitor and audit activities. Any identified abuse will then require prosecution action.

Also some conflicts arise between the messaging under the proposed CCD programme and the CCS programme. This arises because they are based on different mechanisms. CCS is based on vehicle weight bands, whereas CCD is based on CO<sub>2</sub> emissions bands. The two approaches are not always complementary. For example Suzuki Swift can face penalties under the CCS programme but attract rebates under the CCD. That poses communication challenges. Modification of either the CCS or CCD programmes might help minimise or reduce the significance of many such instances.

Another point is that there is a considerable duplication arising from the application of two separate programmes. For example, an Hyundai Ioniq EV is targeted to receive a \$17,000 rebate under the CCS and an additional \$7200 under CCD. How will those messages be communicated at a consumer level? It is particularly problematic where the two messages are contradictory.

Pg 29

**Please tell us what you think:**

- Is the emissions benchmark of 105 grams CO<sub>2</sub> per kilometre by 2025 an appropriate one to have for the Clean Car Discount? If not, why?
- Would an initial emissions benchmark of 150 grams CO<sub>2</sub> per kilometre be suitable for the first year of the Clean Car Discount? If not, why?

18. No, because 105 gCO<sub>2</sub>/km is not a reasonable or realistic target, on two fronts – the target itself posing the most aggressive achievement for any non-vehicle producing



market anywhere, and secondly the expectation that suitable EV volumes will even be attainable for NZ consumption.

19. No, because it is too aggressive, notwithstanding MTA's concerns about the application of two programmes simultaneously. Refer response 17 above.

Pg 29

**Please tell us what you think:**

- Would the level of the fees and discounts in the example feebate schedules (Appendix 4) increase demand for low-emission vehicles? If not what changes would you make?
- In the example schedules the schedules change every year to lower the emissions benchmark and to keep the scheme self-financing. Do you think annual change is practical or should there be less change?
- Should new vehicles include near-new vehicles less than 3 years old?

20. Yes. Even when looking at CCD on its own, the proposed fees and discounts will stimulate demand for low-emission vehicles. If added to the CCS impacts, the outcomes are excessive at both ends of the scale – as fees and as discounts. Again, we observe that having created the demand there is no surety of the industry being able to supply. Reiterating an earlier point, MTA considers there is no good reason for two programmes to be running simultaneously - CCD should be discarded, and a single modified CCS scheme be implemented.

21. The scheme is not balanced, despite claims to the contrary. In 2021, the first year of application, the weighted net aggregate is \$102m penalty, based on 2019 registration volumes. The step-change each year only serves to multiply that potential effect, notwithstanding is very difficult to predict the impacts on sale volumes across the emission bands.

22. No, because it will create market distortions. Conversely otherwise avoidance schemes might arise.

**Please tell us what you think:**

- Do you think a zero band is appropriate? If not why?
- Do you think the size of the zero band in the example feebate schedules is appropriate? If not why?

23. Yes, notwithstanding MTA recommendation that CCD be discarded in favour of a single CCS programme.

24. No comment to make.

**Please tell us what you think:**

- Do you support the proposal to apply the fees and discounts directly at the point of vehicle purchase? If not, why?
- Do you support the penalties outlined in this section to ensure that fees and discounts are displayed on each vehicle and are correctly applied by vehicle suppliers? If not, why?

25. No. Application at retail is problematic: costly and open to abuse or avoidance. It will require consider enforcement resources to monitor, audit, and prosecute offenders. Credibility of the programme would be at risk. Private import schemes would likely develop to avoid penalties, where applicable.

- Many vehicle purchases (approximately 50% of used and 30% of new) rely on consumer financing. How will the rebate apply to these arrangements? Will finance companies seek to have rebates contractually assigned to them or will traders seek to use the rebate as a deposit substitute?

26. Yes, but government has never been good at enforcing similar compliance programmes. Scope for avoidance strategies would be minimised or eliminated if fees and rebates were applied at the border in a similar manner to any entry tariff.





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