

File Note for the Minister

Content of draft response

You have received a submission from the Imported Motor Vehicle Industry Association (IMVIA) requesting that you amend the 2007 Land Transport Rule: Vehicle Exhaust Emissions (the Rule) to delay the implementation of the requirement that newly registered used petrol vehicles must be built to the Japan 05 exhaust emissions standard from 1 January 2012.

The attached draft response declines their request. This is based on your decision not to do so, and subsequent public announcement in 2009 [WGTA10981 refers]. We also understand from the IMVIA's Chief Executive, David Vinsen, that you have conveyed this advice to him verbally at a recent public function.

We have not had the opportunity to undertake a detailed analysis of the IMVIA's claims about the likely scale of any reduction in used-vehicle imports, or any flow on effects for their sector.

Alternative reply

If you would prefer, we could instead draft a holding reply. This would enable the Ministry to carry out further work to investigate the claims about the possible impacts and report back to you more formally before you reply.

Background information

Could the Rule be amended before 2012?

It would be possible to amend the Rule before January 2012. Development of an amendment would need to start shortly for any change to be in place before 1 January. This would be new and unplanned work.

Are the IMVIA's predicted impacts on used vehicles realistic?

We have carried out a very quick analysis of the emissions standards of vehicles being registered in 2010 and have verified that many currently popular models did not comply with the Japan 05 standard until their 2006 or 2007 model. This implies that importers would need to purchase vehicles only 6 or 7 years old, and not those 8 or 9 years old as they do at present. The IMVIA do not state explicitly how they have arrived at their estimate of a 50 percent reduction, but this appears to be the basis of their claim.

The Ministry's impression is that if there were to be a 50 percent reduction in used vehicle imports in 2012, then the economic impacts would broadly be along the lines the IMVIA outline. However, we do not think that a 50 percent reduction (over 2010 import volumes) in 2012 is actually likely.

The IMVIA states that their prediction depends on an assumption that there will be no changes to several key economic variables in both New Zealand and Japan. This is unrealistic and neither party can predict how they might change. An analysis of past trends shows that the exchange rate is at least, if not more important than government policy, in determining the volume of imports of both new and used vehicles (see graph below).

The IMVIA also does not discuss to what level they assume that their members will anticipate the new standard (which has been set out in law since late 2007) and either alter current buying patterns or stockpile vehicles in advance.

It should also be noted that on each occasion in the past 10 years that the government has sought to apply minimum standards on used vehicles (for example, seat belts, frontal impact and exhaust and climate change emissions), the IMVIA (and its predecessor the Independent Motor Vehicle Dealers Association (IMVDA)) has made similar public statements. They have consistently predicted the imminent collapse of the used vehicle market and consequent rise in vehicle prices because of the new policy. Despite their claims, the trade continues, albeit we understand with lower profit margins and fluctuating volumes.

Would air quality or the overall quality of the vehicle fleet be affected by the introduction of the Japan 05 standard in 2012?

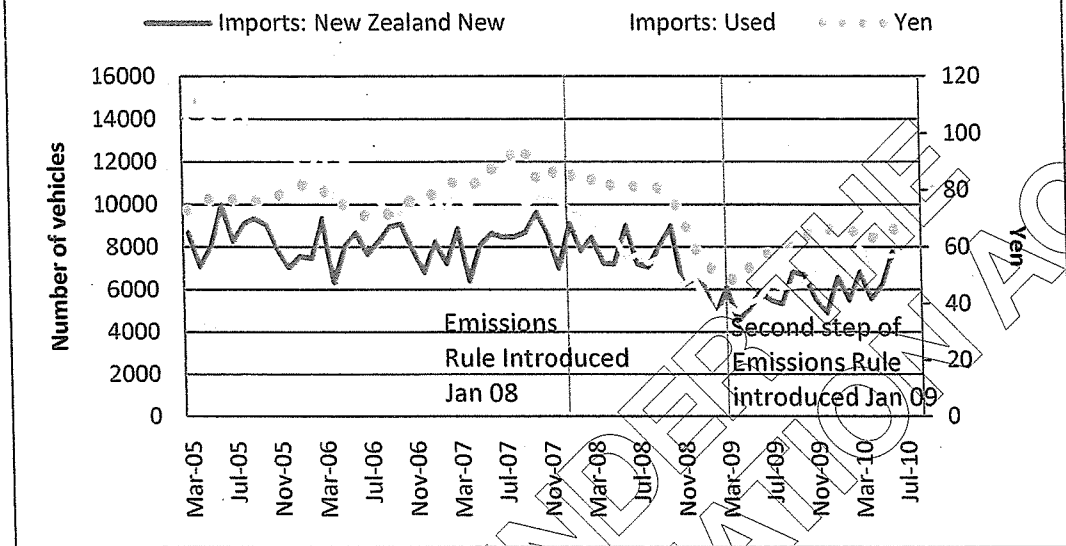
We have developed a basic spreadsheet-based model to look at fleet turnover. The model shows that the New Zealand vehicle fleet is so large (approximately 3 million light vehicles) that differences to the overall fleet as a result of the import of plus or minus 50,000 vehicles in any year are almost imperceptible. Because of the size of the existing fleet, air quality (or the average safety of the fleet) would not suffer measurably if the Japan 05 standard was delayed by 1 or 2 years, but it would suffer if it was never introduced.

Will people retain their existing vehicles longer if imports of used vehicles from Japan were reduced?

The findings from the two scrappage schemes (Auckland in 2007 and Wellington/Christchurch in 2009) show that there is not a direct relationship between those scrapping cars and those buying 'new' used vehicles from Japan. The studies showed that most people scrapping cars either purchased vehicles already in New Zealand, or did not purchase replacements at all.

The rate of vehicle scrappage did decline in 2008 and 2009 compared to earlier years, but this decline shows no relationship with the level of used vehicle imports. It is more likely it was related to the effects of the recession than the lack of imports.

Monthly registration of new and used light vehicles vs. NZ\$ exchange rate with Japanese Yen



Number of light vehicles registered and scrapped 2006 - 2009



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Chief Executive
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Dear David

Thank you for your email of 19 October 2010 enclosing a submission on behalf of your organisation and its stakeholders. In your submission, you ask that I review the 2007 Land Transport Rule: Vehicle Exhaust Emissions (the Rule) before the Japan 05 exhaust emissions standard becomes the minimum emissions requirement for imported vehicles from 1 January 2012.

As you are aware, in 2009 I considered whether it was appropriate to delay any of the requirements set out in the Rule. I stated at that time that the decision to leave the Rule unchanged was to give certainty to your industry. However, as requested in your submission I have given the matter further consideration. On balance, I have to confirm my earlier decision and leave the Rule unchanged.

I note that in making your case for a delay to the introduction of the Japan 05 standard, you argue that the Rule "causes severe fluctuations in the number of used vehicles imported". While there is little doubt that the introduction of the earlier requirements in the Rule must have had some effect on the ability of importers to obtain stock, it is far from clear what that effect was. If the Rule had been the only cause of the changes in the number of used vehicles imported since 2008, then I would not have expected to see the volume of imports of new vehicles following an almost identical path to used vehicles.

You write that you project volumes of used imports will fall by as much as 50 percent in 2012 if a range of conditions, such as the exchange rate and the Japanese economy, stay fixed. The problem with this statement is that it is unrealistic to expect that these conditions will stay fixed. Also, as you observe, many factors affect the volumes of imports. If the recent economic turmoil has told us anything about the used vehicle market, it is that past buying patterns are not likely to be a good indicator for what can be expected in 2012.

As I have said on a number of occasions, I have considerable sympathy for the difficult trading conditions being faced by the motor vehicle sector over the past few years. However, I think it is important to retain the current balance of responsibility for harmful emissions between new and used vehicle importers and provide certainty to the industry as a whole.

Thank you for writing to me with your submission.

Yours sincerely

Steven Joyce
Minister of Transport

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