



To: Hon Steven Joyce, Minister of Transport	MEMORANDUM
From: Iain M ^c Glinchy, Principal Adviser	
Date: 5 September 2011	

Subject: Your request for further information about possible impacts of the Vehicle Exhaust Emissions Rule's requirements in 2012

Purpose

The purpose of this memo is to respond to your request of 2 September 2011 for further advice on the possible impacts of the 2007 Vehicle Exhaust Emissions Rule in 2012. In particular you asked for advice on the patterns of import of vehicles prior to the introduction of previous emission standards.

Response

In the first half of 2011 vehicles compliant with the Japan 05 standard have made up 15 – 20 percent of total used petrol vehicles being registered. The monthly figure has been rising, although only slowly. Because MOT only obtains data quarterly we do not have data for July and August yet to see if the trend has changed since June. The lack of a clear increase in vehicles complying with Japan 05 this year is consistent with the average age of vehicles increasing from 7.9 in the last quarter of 2010 to 8.6 years in the second quarter of 2011.

Percent of light petrol vehicles compliant with Japan 05 standard

Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
J05	16.3%	17.3%	19.0%	18.5%	19.6%	18.7%

In your request you asked about the timing of the introduction of the requirement for the Japan 00/02 standard as the minimum in 2009. The requirement for light petrol vehicles to meet the Japan 00/02 standard came into effect on 1 January 2009, however, vehicles imported before 1 January 2009 continued to be processed after that, so full compliance was slightly delayed.

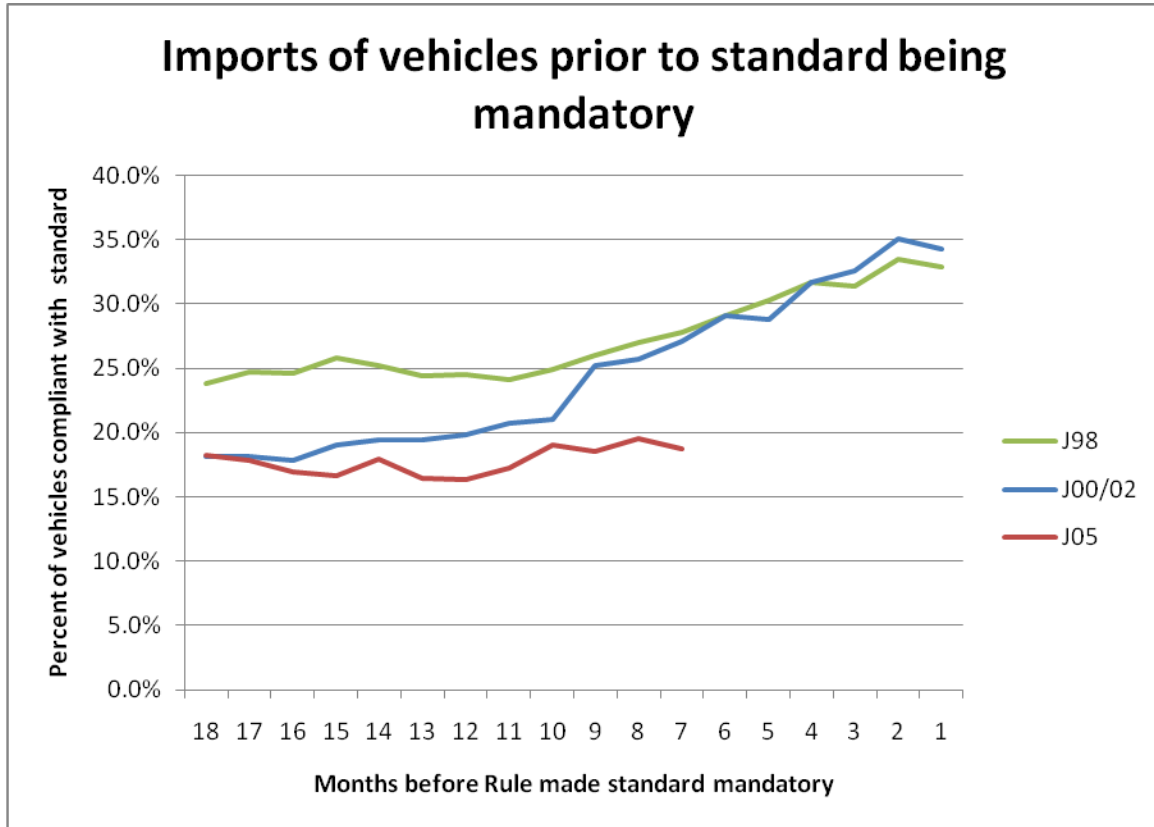
As previously discussed [WGTA14163 refers], the requirement to meet the Japan 00/02 standard appears to have coincided with the worst effects of the global recession. Virtually all economic data shows a large dip in late 2008 and early 2009. We are therefore unable to distinguish the effects of the Rule's requirements from the effects of the recession. We strongly suspect that most of the drop in the volume of imports seen in late 2008 and early 2009 was caused by the recession. This is set out in our June 2011 memo where we said about 80% of the variation in import volumes since 2006 can be explained by external economic variables, such as the exchange rate.

In the first six months of 2008 (ie the same period as above prior to the requirement for Japan 00/02 as the minimum standard), the percentage of vehicles compliant were ahead of where the Japan 05 levels are in 2011, but not by a large amount. The key difference is that the percentage of compliant vehicles rose more steadily in 2008.

Percent of light petrol vehicles compliant with Japan 00/02 standard

Month	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
J00/02	19.8%	20.8%	21.0%	25.2%	25.7%	27.1%

We have also looked at the situation in 2007, prior to the emissions Rule's first requirements coming into effect in 2008. The situation was also broadly similar (see graph below) albeit with some obvious differences in the steepness of the trend.



Data to the end of June 2011 (presented in WGTA14163) shows that NZ macro economic conditions continue to be the best predictor of overall vehicle import volumes. However, we are not in a position to predict economic conditions in the coming six to twelve months. In addition we cannot predict the effects of the external variables, especially the restrictions in supply caused by the economic effects of the Japanese earthquake.

We are confident that importers will adapt to the new requirements over the slightly longer term (12 – 18 months), but 2012 is likely to be a very difficult trading environment for those importers unable or unwilling to adapt their current business model.

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Principal Adviser