MINISTRY OF TRANSPORT REPORT

Subject: Possible effects of the Vehicle Exhaust Emissions Rule on vehicle prices

Date: 14 July 2011                      OC no.: OC00019

Attention: Hon Steven Joyce (Minister of Transport)

Priority: Routine                      Security level: In-Confidence

Deadline: NA

Reason for deadline: NA

Purpose

1. To provide you with further information on the possible effects of the Vehicle Exhaust Emissions Rule on vehicle prices.

Contact for telephone discussion (if required)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Telephone Direct Line</th>
<th>Telephone After Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jörn Scherzer</td>
<td>Adviser</td>
<td>04-439 9399</td>
<td>04-439 9399</td>
</tr>
<tr>
<td>Iain McGlinchy</td>
<td>Principal Adviser</td>
<td>04-439 9295</td>
<td>04-439 9295</td>
</tr>
</tbody>
</table>

Minister of Transport’s office actions

☐ Noted        ☐ Seen        ☐ Approved

☐ Needs change ☐ Referred to

☐ Withdrawn    ☐ Not seen by Minister ☐ Overtaken by events
Background


3. David Vinsen presented his organisation’s view on the likely effects of the next phase of the Vehicle Exhaust Emissions Rule, taking effect on 1 January 2012. He argued that the price of vehicles that are compliant would be too expensive for many buyers, who are only able to pay between $10,000 and $14,000.

4. It was agreed at the meeting that the IMVIA would supply the data underlying these assertions to the Ministry of Transport, for their consideration. Following the meeting, the IMVIA supplied purchase and retail price data for ten vehicle types popular in New Zealand (see Annex 1 and 2). This data has previously not been available to the Ministry of Transport.

Comment

5. In order to make use of the IMVIA’s data and provide you with further information on the possible effects of the vehicle exhaust emissions rule on vehicle prices, officials believe it is important to do so within a framework.

6. For this purpose, we have developed two scenarios in order to understand what situations are (or could be) of concern to consumers and the IMVIA. As a starting point for these two scenarios we consider the options available to a person wanting to buy a used vehicle after 1 January 2012.

7. In both scenarios we assume that the buyer wishes to buy a vehicle within the $10,000 to $14,000 price range. The industry considers this range as the ‘sweetspot of affordability’ since many popular used imported vehicles tend to be sold within that price range.

Scenario 1

8. Under scenario 1 the buyer can buy a used vehicle that does not meet the new requirements. S/he has three options.

   a) S/he could buy a vehicle from a dealer who has stocked up with imports before the rule took effect.

   b) S/he could buy a vehicle from a dealer who has obtained it from another source such as an auction or a trade-in deal (either a previous ‘used import’ vehicle or a used ‘NZ new’ vehicle).

   c) S/he could buy a vehicle from a person who has decided to sell their vehicle privately (eg via TradeMe).

9. Under this scenario, the rule does not create a price barrier to a consumer wishing to purchase a vehicle in the sweetspot of affordability.

10. There could potentially be some price adjustments if the demand changed for vehicles that do not meet the new requirements, such as more people suddenly wanting to buy a specific vehicle that is not currently common in New Zealand. However, it is not possible to quantify that potential effect as it relies on various assumptions such as buyer preferences.
**Scenario 2**

11. **Under scenario 2** the buyer can buy a freshly imported used vehicle that *meets the new requirements*. S/he has three options.

   a) S/he could buy a newer vehicle than s/he originally intended but would have to spend more money on it. Everything being equal, an imported 2006 Subaru Legacy that meets the new requirements will cost more than a 2003 Subaru Legacy that does not meet the new requirements. Considering the data for some selected popular vehicle types as supplied by the IMVIA, a purchaser may need to spend between $2000 and $5000 more (see Annex I). With selected large vehicle types like people movers, the price difference can be higher. This is to be expected given that newer or larger vehicles tend to cost more than older or smaller ones.

   b) S/he could buy a smaller vehicle than s/he originally intended, such as a Honda Jazz instead of Subaru Legacy.

   c) S/he could buy a newer vehicle but with a lower quality or fewer features than s/he originally intended.

12. **Under this scenario**, the rule also does not *per se* create a price barrier to a consumer wishing to purchase a vehicle in the sweetspot of affordability. However, the consumer may be prevented from purchasing an imported vehicle that s/he would have bought if the rule was not in place. The key issue is therefore what expectations consumers have when they intend to purchase a newer vehicle.

13. If the buyer is constrained to the $10,000 to $14,000 price range, in scenario 2a the buyer will effectively be prevented from buying their intended vehicle. In this case, the buyer will have to consider alternative purchasing options, as per scenarios 1a-c, 2b or 2c.

14. Considering the various purchasing options available to consumers, it is not clear that potential buyers will be priced out of the vehicle market. Indeed, those that wish to buy an affordable vehicle can continue to do so, even though the continued import as a source of some used vehicle types will no longer be possible.

15. Overall there should be no noticeable effects on the availability of vehicles, although there may be some specific exceptions. For example, people movers such as the Honda Odyssey are not traditionally supplied as new vehicles into the New Zealand market. Therefore, unless consumer preferences changed (eg buyers opt for a smaller alternative vehicle), the prices of used compliant vehicles of this kind entering the fleet for the first time may become out of reach for some, for a few years, until compliant vehicles become more affordable in Japan as they get older.

16. With regard to the IMVIA’s concerns, it appears the rule will create challenges if a dealer’s business model is built solely upon the import of a certain range of used vehicles, as per scenario 2a.
17. However, this does not mean that used vehicle importers do not have alternative vehicle purchasing options available to them. Figure 1 below shows the type distribution of the top 30 vehicle models in sales in Japan. For comparison, Figure 2 shows the type distribution of New Zealand’s top 30 used vehicle models imported from Japan. While we do not have statistics on what vehicles importers could be buying that they are currently not buying, see scenarios 2b and 2c, the data indicates that New Zealand currently imports a narrower range of vehicles than may be available from Japan’s fleet.

18. It appears that in principle, importers could import a large range of smaller cars. Therefore, it should still be possible for used vehicle importers or dealers to sell vehicles in the current ‘sweetspot’, albeit with a different portfolio of vehicles.

19. Moreover, considering the shift in buying patterns in Japan (see Figure 1), it is likely that importers will have to change their business model at some point, given that the availability of the range of vehicles that importers are currently importing may decrease.

---

Figure 1: Type distribution of the top 30 vehicle model sales in Japan

Figure 2: Type distribution of New Zealand’s top 30 used vehicle models imported from Japan

---

1 see Annex 2 for information about the top 10 registrations of used light vehicles between January and June 2011.

2 In 2010, the top 30 used vehicle models imported from Japan made up about 60% of all used light vehicles imported into New Zealand.
Recommendations

20. The recommendations are that you:

(a) **Note** that the next phase of the Vehicle Exhaust Emissions Rule does not *per se* create a price barrier to consumers wishing to purchase a vehicle in the sweetspot of affordability

(b) **Note** that consumers may be prevented from purchasing an imported vehicle that they would have bought if the rule was not in place. While consumers may need to spend between $2000 and $5000 more in order to buy a newer imported vehicle that meets the new standard, they will have alternative purchasing options if they are constrained to the $10,000 to $14,000 price bracket

(c) **Note** that the next phase of the Vehicle Exhaust Emissions Rule will challenge the business model of those importers of used vehicles that focus on a relatively narrow range of vehicles (e.g. large cars, People Movers)

(d) **Note** that considering the shift in buying patterns in Japan, it is likely that importers will have to change their business model at some point given that the availability of the range of vehicles that importers are currently importing may decrease

(e) **Agree** to make this briefing publicly available as it likely that the IMVIA will request this information under the Official Information Act
Annex 1: Retail price data supplied by the IMVIA

The IMVIA supplied data for the 10 most popular import models sold in New Zealand. ‘2D’ describes a model that does not meet the new requirements from 1 January 2012; ‘3D’ describes a model that is compliant with the next phase of the rule.
Annex 2: Top 10 registrations of used light vehicles (January-June 2011)

<table>
<thead>
<tr>
<th>Model</th>
<th>Type</th>
<th>Total registrations</th>
<th>Percent of all used vehicle registrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subaru Legacy</td>
<td>Large Car</td>
<td>2,038</td>
<td>4.9%</td>
</tr>
<tr>
<td>Mazda Atenza</td>
<td>Large Car</td>
<td>1,500</td>
<td>3.6%</td>
</tr>
<tr>
<td>Toyota Corolla</td>
<td>Mid-sized Car</td>
<td>1,911</td>
<td>4.6%</td>
</tr>
<tr>
<td>Mazda Axela</td>
<td>Mid-sized car</td>
<td>931</td>
<td>2.3%</td>
</tr>
<tr>
<td>Nissan Wingroad</td>
<td>Mid-sized car</td>
<td>900</td>
<td>2.2%</td>
</tr>
<tr>
<td>BMW3 series</td>
<td>Mid-sized Car</td>
<td>1,016</td>
<td>2.5%</td>
</tr>
<tr>
<td>Mazda Demio</td>
<td>Small Car</td>
<td>986</td>
<td>2.4%</td>
</tr>
<tr>
<td>Toyota Vitz</td>
<td>Small car</td>
<td>1,480</td>
<td>3.6%</td>
</tr>
<tr>
<td>Honda Odyssey</td>
<td>Large People Mover</td>
<td>871</td>
<td>2.1%</td>
</tr>
<tr>
<td>Toyota Estima</td>
<td>Large People Mover</td>
<td>1,369</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

NB: There is no official classification of vehicle shape on the Motor Vehicle Register. The classification here is arbitrary, but was agreed with IMVIA on the basis of engine size and physical shape. For this exercise a small car was defined as 0-1,500 CC, mid size was 1,500-2,000 CC and large was 2,000+ CC.