



**MOTOR INDUSTRY
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INCORPORATED

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Monday 9 September 2019

To: - cleancars@transport.govt.nz

**MIA Submission on the Moving the light vehicle fleet to low emissions: discussion paper
on a Clean Car Standard and Clean Car Discount**

Please find attached the MIA's submission on "Moving the light vehicle fleet to low emissions: discussion paper on a Clean Car Standard and Clean Car Discount".

The Motor Industry Association (MIA) is a voluntary trade association set up to represent the interests of the new vehicle industry specifically the official representatives of overseas vehicle manufacturers across the passenger car, light and heavy commercial vehicle and motorcycle including on and off road (i.e. ATV etc) sectors.

A list of MIA members who are distributors of light vehicles in New Zealand is attached at Appendix One. This group of distributors account for approximately 98% by volume of the importation of new light vehicles.

Kind regards

A handwritten signature in dark ink, appearing to read 'David Crawford', written in a cursive style.

David Crawford
Chief Executive Officer

1 Introduction

The Motor Industry Association (MIA) welcomes discussions on policies that will lead to an achievable and sustained reduction in CO2 emissions from vehicles as they enter the fleet. We will work constructively with the Government on what we believe are the best mix of policies to achieve that outcome, and this submission addresses some of the key elements we believe are necessary to set a medium to long term pathway of reducing greenhouse gas emissions from transport.

Reducing emissions from transport is strongly supported by the MIA and its members. We recognise more can be done to accelerate the reduction of GHG emissions from transport over that gained under business as usual parameters. However, to do more than is possible under business as usual will require the Government to leverage policies in a sustainable way to incentivise a faster rate of change.

Our view is that:

- Policies that influence consumer demand are preferred.
- Policies aimed at controlling supply into our market are generally not favoured as they impose artificial controls that distort that market.

In our response to the Car Clean Policies as proposed in the discussion document, we set out what we believe is the best approach to achieve the outcome Government is seeking in a way that industry can best respond.

The proposed policies are significant. Their potential to constructively impact the choice of vehicles consumers purchase is significant. Conversely, their potential to severely distort the market if poorly constructed is also significant.

Overall our view is that the clean car discount is workable and is supported but with a series of changes promoted to enhance its effectiveness.

However, we believe the clean car standard as proposed, as much as we tried to find ways to support it, is seriously flawed. We recommend the proposed clean car standard should be rejected as its methodology is in our view wrong and instead Government should establish an industry/Government working group with the aim of setting out a road map for the full range of light transport policies required over the coming years, to commence with an intensified immediate period focused on the design and implementation of a fuel economy standard for New Zealand. This working group should meet as soon as is practicably feasible, time being of the essence, to agree the methodology for the standard from which targets and timelines can be negotiated and agreed.

The MIA suggests

+ a five/six delegate team from the MIA work with both the Ministry, either along-side or separately to delegates from the VIA. We would propose we start week of the 23- 27 September as a matter of urgency, to allow time for at least 3 further meetings before the Christmas break.

2 Summary of MIA's Key Recommendations

The MIA's key recommendations from within the submission are set out below.

The need to reduce CO2 emissions:

- The MIA acknowledges more can be done to lower greenhouse gas emissions from the transport fleet and we want to be part of the solution.
- Policies that directly influence the consumer when they purchase vehicles must be given priority.

The Feebate (So called Clean Car Discount)

- The Clean Car Discount, with a few important modifications, is supported by the MIA. We recommend the Government proceeds with its introduction with the most significant changes being the point at which the policy applies and adjusting the point at which a vehicle is considered new or not for the purposes of the discount, i.e. separate completely New and Used vehicles.
- The MIA recommends that the price cut off point for the Clean Discount is lifted from \$80,000 to \$100,000. New technology is more expensive for the same type of comparable internal combustion engine (ICE) vehicle and lifting the discount eligibility point from \$80,000 to \$100,000 significantly increases the availability pool of low emission vehicles.

The Fuel Economy Standard (So called Clean Car Standard)

- The Clean Car Standard as proposed in the discussion document is unworkable in its entirety. The MIA does not support the Clean Car Standard as proposed.
- We recommend the Government dismisses the proposed methodology, standard and targets and that it works instead with industry to design a new proposal.
- The MIA encourages the Government to establish an industry/Government working group to design a fuel economy standard that is fit for purpose for NZ, which agrees a road map on its design and implementation.
- We oppose the Clean Car Standard as proposed because:
 - The timeline is too short, it needs to be extended to cover at least two new vehicle model cycles, i.e. it is not set out to 2030.
 - The rate of target achievement is far too ambitious. No country in the world has achieved anywhere near the rate of CO2 reduction from their fleet as that required by the Government's proposal. There is no point in setting a target that is so hard no one will achieve it with the resulting penalties translating to a tax on all new vehicles.
 - The proposed weight bandings are manifestly unfair. Under the proposal no distributor other than those who retail only EVs will gain credits, resulting in what becomes effectively a tax on the price of all new vehicles.
 - The proposal will be particularly severe on new small vehicles which will be the first vehicles to be dropped by distributors.
 - The MIA notes that no other country which has a fuel economy standard in place combines all light vehicles into one target. There is clear rationale for keeping those split, as no OECD member has yet found a method that can combine these without serious flaws and complications overlaid to it. The issue is the very different fuel use, fuel types and fuel consumption design criteria, which affects CO2 differently so that the practical CO2 reduction rates also vary, as well as the absolute CO2 g/km start points. It makes no sense for a unique policy positions of this nature, without a clear policy rationale for a market of

- our size, to be so different from our supplying country regimes, like Europe, USA and Japan. This would create more problems than it would solve.
- There is no provision for super credits in the proposed standard. A fuel economy standard should incorporate super credits to act as an incentive for the supply of ultra-low emission vehicles.
- The penalty rate is too high and too severe.
- The penalty should be the same for both the new and used vehicle sector (whereas the discount should not).
- The standard as proposed does not treat new and used vehicles the same, it perversely incentivises fewer new cleaner cars and incentivises older dirty cars.

Other Recommendations

The MIA understands Ministers had previously asked officials to undertake background work on a range of policies to develop an overall package of policies that together would influence an increased rate of reduction in greenhouse gas emissions from transport over business as usual.

We remain concerned that this other work has not yet seen the light of day. In its absence the impression given is that the two clean car policies continue an ad hoc and disconnected approach to the reduction of greenhouse gas emissions ahead of the Paris commitment period.

The material concerns of the MIA are:

- To date the Government has not taken an all gasses all sectors approach to climate change. Consequently agriculture, which contributes around 49% of our country's total GHG emissions is by and large left out of mitigation requirements.
- Our energy sector is relatively efficient given our high rates of renewable electricity although there is scope for further emission reductions from this sector outside of transport. We note there are policy initiatives in place to address this sector.
- The focus then turns to transport to reduce GHG emissions, which in and of itself is not unwarranted. It is in our view timely and should have been addressed already by previous Governments.
- Sadly though, the conversation turns quickly to transport being the (sole) means to achieve our Paris commitments. Policy conversations where it implies transport is the means to meet our Paris commitments belies the fact that it is entirely infeasible for transport, which in total contributes 20% GHG emissions in NZ, and further just light vehicles to offset the non-contributing agricultural sector which accounts for 49% of our emissions profile.
- The picture gets more constrained when considering that the two policies contemplated in the discussion document relate to light transport only, which accounts for only 13.5% of NZ's GHG emissions profile.
- Then more infeasible yet again when considering the two policies only relate to light vehicles as they enter the fleet for the first time. This accounts for about 6% of 13.5% of NZ's GHG emissions profile.

The point being the two proposed alone cannot be thought of as an answer to how to effectively reduce transport GHG emissions, let alone New Zealand's!

As such we urge the Government to develop a comprehensive policy mix on reducing GHG emissions from transport which covers at least the following:

- In fleet incentivisation targeted at current vehicle owners to encourage them to move to both the safest and cleanest vehicles within their budget. Effective change must come from the entire light fleet, not just vehicles entering it. MIA acknowledges the current Government has decided to not pursue policies relating to vehicles in the fleet. We believe this wrong.
- Continual improvement to fuel quality. To ensure we can tap into the cleanest vehicles from an exhaust emissions profile we need Euro 6.2 emission standards. While not all brands require it, many of the hybrids and PHEVs require Euro 6.2 with a specific level of aromatics. The issue is the level of aromatics in our fuel is currently too high.
- There are no policies that make it easy for people to scrap vehicles. Auckland remains the easiest market in NZ to scrap a vehicle, but outside of Auckland it is problematic. There is a bulging age profile in our fleet that needs access to coordinated scrap/recycling facilities, as well as the scrappage support.
- Our charging network, while being developed by the private sector, needs significant upgrades at the retail level to ensure those purchasing EVs can charge them. Overseas jurisdictions have a more coordinated approach than NZ.
- An unfettered reliance on old used imports is not the answer to safer, cleaner vehicles. The age of Used Imports being allowed across our borders is getting older not younger. We strongly recommend that in addition to the standards based approach for importation of used vehicles, an age limit is set so that vehicles must meet standards and be younger than eight years of age from the date of first registration anywhere in the world. We also recommend, to support this, or failing any age limit in the standard, the CCD Discounts only be allowed on Used Imports up to 7 years old, while the fees apply to any age Used Import.
- Better use of tax incentives to drive change, which is likely to be less distortive to new-to-used, passenger-to-commercial, importer-to-importer differences.

3 General Comments

There are several international factors and trends that are relevant to the NZ market and the most significant of these are set out in this section of our submission.

Also, before responding to the two policies themselves, several comments in the discussion document need to be addressed as they are significant misconceptions about the New Zealand new vehicle market and how it works. These misconceptions have influenced the shape of the policies in the discussion document but are incorrect.

We are a Technology Taker

All light vehicles in NZ are imported. None are made here. The technology developed in new vehicles is designed to meet overseas standards and requirements which is reflected in the way transport legislation and Rules are constructed. We recognise standards for Australia, Europe, Japan and North America.

Our market is too small for NZ to set unique vehicle standards.

Consequently, any policies applied to vehicles imported into New Zealand need to be cognisant that we are a technology taker, not a technology leader.

Long Run CO2 Reduction – New Imports

The MIA and the NZTA have been tracking the rate of reduction from the NZ new light vehicle fleet since the 2000's. The rate of reduction is not linear as reductions are achieved mostly when new models are launched. A model cycle will generally last four to six years, longer for commercials, and in recent years that period has extended out due to the global economic crisis. For Australasia with different ADR and ANCAP regimes, and market demands, environmental horizons, that also meant some other delays to new model launches and new technologies to our markets.

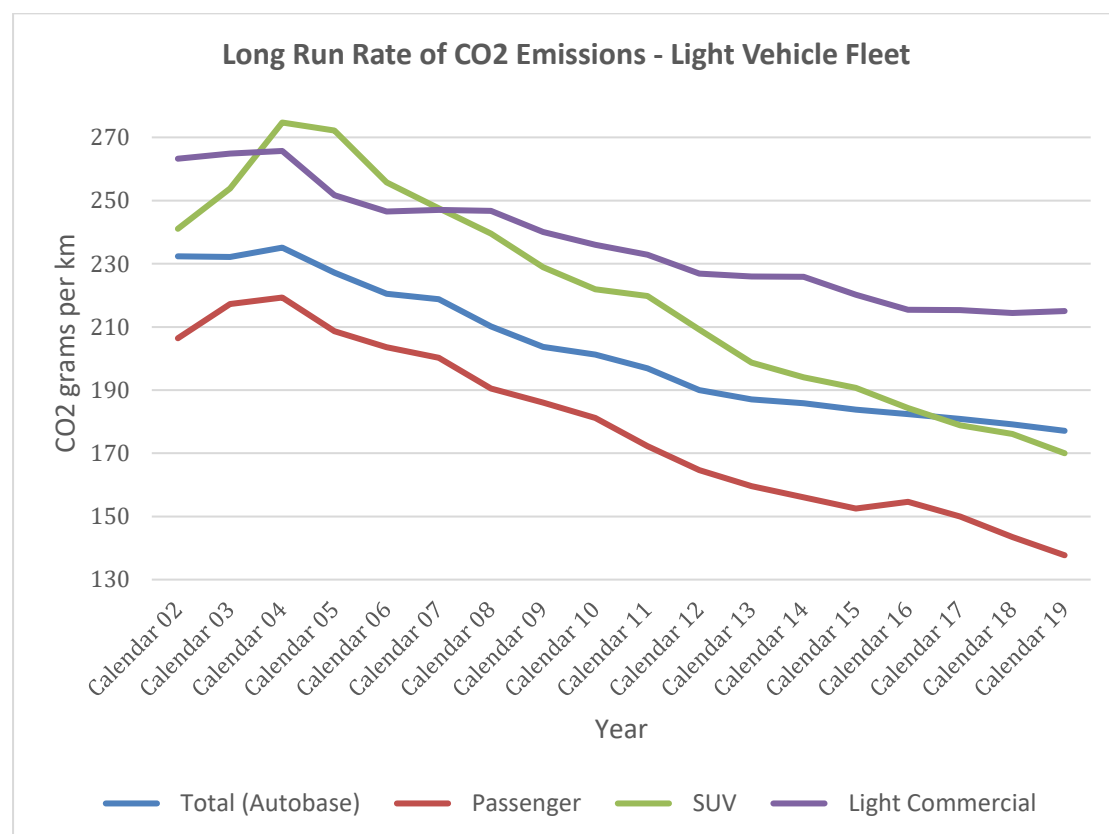
Passenger is already transitioning like Europe - the rate of CO2 reduction of light passenger vehicles has been good, averaging around 1.9% year on year. This is not far off Europe's passenger car reduction average, and in fact beats some European countries. Our rate is similar to Europe, but slightly lagging, because NZ as a technology taker, has recently transitioned to global platforms, global product-cycles, globally sourced, car-based platforms for SUVs and MPVs alongside the car hatchbacks and wagons. However, globalisation logistics costs adversely drive up proportional prices of small-medium passenger compared to larger ones. This in turn drives more families to choose a Used Import passenger car rather than a cleaner New Import Small/Medium passenger car. Thus, further eroding the viability of small New cars.

For passenger class vehicles, the only way to improve this absolute rate of CO2 reduction is to accelerate the uptake of ultra-low emission vehicles, principally PHEVs and BEVs. Or to switch consumer preference towards significantly smaller vehicles, through the demand-led choice leverage of the CCD.

Commercials is reducing too, but more complex - the rate of emission reduction from light commercial vehicles is much slower at around 1.1% year on year. This is due to the global lag of commercial transition to LEV and ULEV, in part driven by longer product-cycles, 6-9 years typically between powertrain changes, and in part driven also by non-global product platforms, where Australasia takes Asia-Pacific based products. Local demands for more productive vehicles, with higher load, more utility, and multi-tasking capability, still on a

medium sized utes, or 4x4 and for larger vans, has led to balancing higher performance output, with emissions and consumption needs. They are still cleaner, but more efficient and effective too. The rise in the volumes of the 1 tonne-capacity utes has been for a number of reasons. Some consumer do not want to buy a van yet want to get 4/5 seats or better towing. However, in the main, it's largely due to use in the commercial sector by trades and farmers. Europe is a very different commercial user profile. Its scale, demographics and economy means specialised job-roles can utilise a car-derived van configuration better than a multi-tasking ute, so they fewer less utes and more vans. In NZ the trend of polarising to a ute, or a large van or small van/passenger wagon, is hard to compare. In NZ, 69% of Ute buyers are business, not private, verified in VFACTS sales NZTA registration data. Additionally, 54% are sold outside the three Metros, so only 46% are sold in Auckland, Wellington and Christchurch. In the Metros the business mix is even higher too at 77% of ute sales.

Whilst we would also recognise the refinement improvements and IRD taxation allowances have caused more private individuals and sole traders to buy a ute, this hasn't necessarily been instead of a passenger vehicle. They may have been avoiding the purchase of a less practical van, or need 4x4, or indeed having to buy two vehicles instead of a multi-purpose one.

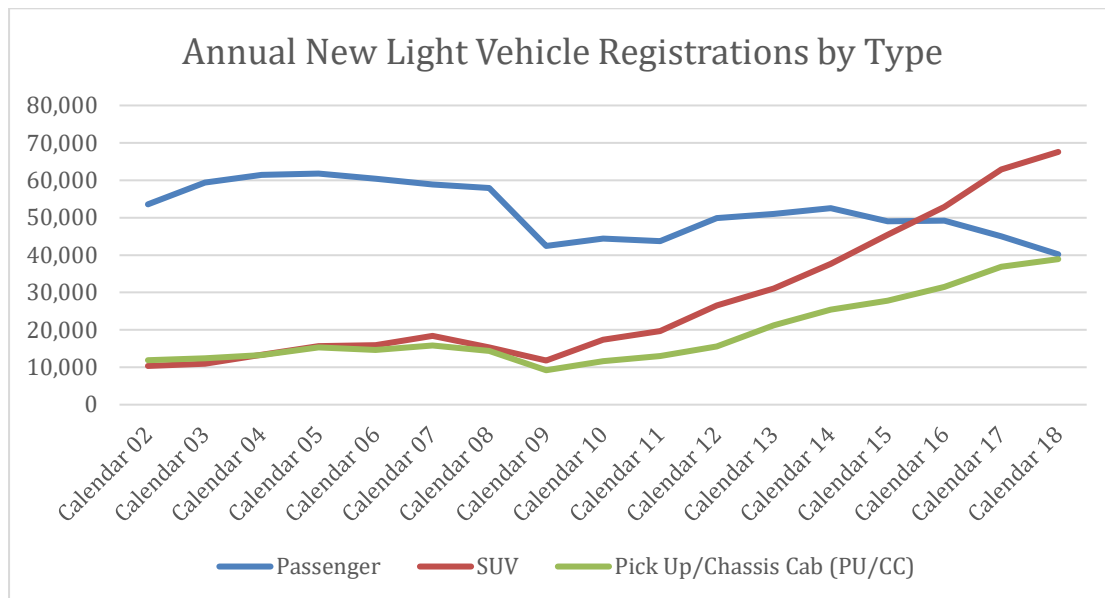


Characteristics of the NZ Market

The New Zealand Market is unique in the world for two principle reasons:

- The split between new and used imported vehicles is unique, in combination with;
- The market profile of light vehicles with the highest rate of 1 tonne ute ownership as a percentage of new vehicle sold and low percentage of vans. The graph below shows

the trends for all passenger and all SUV vehicles and compared to utes. This is not all light commercial vehicles. When other light commercial vehicles (eg vans) are added in, their volume exceeds passenger vehicles.



The rise in the registrations of utes has been driven mostly by an increase in economic activity around infrastructure development (Christchurch rebuild, major roading projects) and growth of the building sector leading to updating of their older vehicles with newer utes. The point being that while many of these are used within the urban environment, more often than not they are used for trade type activities.

It is worth noting that while passenger and SUV vehicles are worldwide vehicle types, utes are not. Consequently, utes are last in line for emission reduction technologies while manufacturers concentrate on making low emission passenger, SUV and van vehicle types to meet emission targets in other countries. This means there is unlikely to be any low emission alternatives for this sector for some time to come.

Intrinsically this mix of vehicles in New Zealand, as it is in other markets, is demand driven. It is not correct to simply compare our vehicle market and ask the question, often in a rhetorical way within the discussion document, why is our market not like theirs? The answers are varied and complex and invariably relate to consumer choices, culture and socio-economic factors.

Size of the New Zealand New Vehicle Market

We are tiny.

Typically, the *total annual sales volume* for vehicle brands sold in New Zealand amount to about 30 minutes production time to a few hours for each manufacture.

For 2018, total annual light vehicle production was in the order of 92 million vehicles. We imported around 154,500 new light vehicles, representing around 0.17% of annual worldwide production.

No manufacturer makes vehicles for the NZ market. At best they are an Oceania product mix.

Time required to change a product mix

In the discussion document, it notes several fuel efficient models sold overseas but not here. The implication is that the process of swapping models for more fuel-efficient ones is simply a matter of distributors supplying to the NZ market the models from those other markets.

However, it is not that simple. Given that New Zealand has a high rate of demand for automatic vehicles and petrol over diesel for passenger cars, it is not simply a matter of noting a different model exists in other markets and questioning why we can't have it here. Even if we do, the following typical process to make sure a model is suitable to the New Zealand is:

- Models are designed for market areas. The New Zealand market area is usually combined with Australia (Oceania).
- Agreement is sought from the parent company to source a model to the NZ market. Due to liability reasons, seeking agreement can be a protracted negotiation.
- Changes to the model need to be made for matters such the infotainment system which is set to specific radio frequencies and/or navigation systems etc. This could mean a change to the vehicle's dash and would require a new vehicle safety test (ANCAP) to be undertaken.
- Vehicles supplied to other markets will more than likely have different engine compression ratios to match their fuel.
- For vehicles meeting Euro 6.2 vehicle exhaust emission standards, they cannot run on our fuel due to the level of aromatics being too high in our fuel.
- Different vehicle manufacturers require different in-country processes for recycling of certain parts such as lithium ion batteries.
- There is a raft of safety assist technologies that need to be changed. It is no longer that a car built, say for Europe, can come to NZ without a significant overhaul of software, navigation systems, sign recognition requirements, brake warning systems etc. Again, these changes mean a new ANCAP test is required for the model.
- Some of the changes in the above bullet point will require significant re-assessment of standards of compliance (homologation processes) which is time consuming and costly.
- These changes will not be made unless the model in question can be brought to Oceania. They are unlikely to be undertaken just for the NZ market given our minuscule size.

Taking the above into account, it is often a two to three year process to get an existing model approved for the NZ market and this process is only undertaken if the projected sales will offset the costs of undertaking the above work.

Less Fuel-Efficient Vehicles

There is an implied accusation in the discussion document that Distributors are deliberately supplying less fuel-efficient vehicles to this market. If this is the intent of the way in which this is described in the discussion document then we can only respond by saying simply it is not true. Vehicles supplied to our market, albeit with higher emissions profile compared to other countries, is a direct function of what consumers are buying. In other words, supply is demand led.

The New Zealand new vehicle market is:

- Demand led, not supply driven. NZ distributors analyse the new market in every which way to see what types of vehicles are preferred by their target consumer groups. They

then product plan and stock vehicles within their brand(s) that they have confidence will 'actually' sell.

This is not unique to New Zealand. As recently as August 2019, Wards Auto ran a story about the US market that explained that while the auto industry is developing enough EVs, hybrids and fuel-efficient cars to meet their in-country targets, consumers are by and large ignoring them and instead buying big pickup trucks, SUVs and crossovers. This illustrates that demand driven policies are more likely to be effective in changing the model mix and achieving a CO2 reduction than a fuel economy standard alone.

In the Ward article they quote a respondent who noted "I'm sure they could meet the targets, but it takes more than the automakers. It takes consumers to buy EVs. Until then, fat chance".

- Slow moving lines are dropped. Holding stock of slow-moving lines is expensive and unprofitable. Distributors manage their stock levels to balance sales, not lead sales. As stocks of fast-moving lines are depleted orders to replace units sold are made. Slow-moving units are restocked at a lower rate. This approach to product planning and logistics is the same as for supermarkets, warehousing, and most other retail businesses. There is a strong financial disincentive to hold stock for long periods.

If stock is slow moving, the longer it sits, the more the distributor must discount the price to move it.

- World demand for fuel efficient vehicles is growing much faster than supply. This is not a surprise. There is a worldwide scramble for low emission vehicles. Large markets get priority. Demand is particularly strong in left-hand drive markets meaning product development resources are going there first.
- No one makes vehicles for the NZ market

As noted above, the NZ market is miniscule.

- Link with Australia.

Following on from the above point, many models for NZ are not a NZ alone specification, they are a joint specification for the Oceania market.

The cost of homologating a model for the NZ market when it was originally designed for another market is not insignificant.

Price Parity between EVs and ICE Vehicles

There is a wide disparity of views between government agencies and industry on when and if we will see price parity.

Many of the Government's predictions on price parity are based on reports written by consultants as opposed to being based on vehicle manufacturing assessments. In the MIA's view, some of the consultancy type reports are not seen as being reliable and credible by industry.

Nevertheless, the general principles around price parity between ICE and EVs relates to the cost of technology over time, with battery technology being the key determinant. Currently, battery technology has an average cost of around \$197/kWh, but advances in technology are likely to bring this cost down. We expect costs could be down around \$125/kWh by the mid 2020's and if so, would make PEHV's and BEV's more price competitive with ICE vehicles.

We are careful with our choice of words here. Price competitive is not the same as price parity. Also, the 'if so' comment is still a moot point, the truth is no one knows if the cost will actually reach \$125/kWh by the mid 2020's, it is still a hopeful speculation. No one will be more pleased than vehicle manufacturers to see this price point reached. A significant impediment to the sale of BEV's is their higher cost due to the cost of batteries.

Is it possible to see the price point reduced even more? The answer is yes when looking at typical cost production curves of other technologies. However, it would take breakthroughs in lithium-metal and lithium-sulphur batteries to get prices below this point and if these can be made then we would expect prices to go as low as \$80/kWh. While we expect the cost to reduce if these breakthroughs are made, it remains an uncertain outcome that the breakthroughs can be made. Industry certainly hopes they can be.

One thing is certain, it will not be through lack of trying. Vehicle manufacturers are spending billions of dollars in R&D on low emission technologies.

Electricity Supply Network

Key to tapping into the success of a transfer in battery technology will be the charging infrastructure required to support 600km plus range EV's. The discussion document is silent on this point, but it remains a significant concern to the MIA as the current electricity supply at a local network level requires significant investment.

We note that the benefit/cost analysis was silent on this point.

EV Uptake Is Led by Those who Can Afford It

There is evidence overseas that the uptake of EV's is led by those who can afford it, even when healthy subsidies are in place.

https://europe.autonews.com/automakers/norways-electric-car-revolution-spearheaded-richest?utm_source=daily&utm_medium=email&utm_campaign=20190816&utm_content=hero-readmore

Even when incentives are in place, sometimes EV's are still not preferred. The link below demonstrates that at the end of the day, the person you most need to convince is the buyer of the vehicle, not the seller.

https://www.wardsauto.com/car-management-briefing-seminars/auto-engineers-higher-efficiency-possible-us-buyers-not-interested?NL=WAW-04&Issue=WAW-04_20190805_WAW-04_945&sfvc4enews=42&cl=article_1&utm_rid=CPENT000000095227&utm_campaign=21835&utm_medium=email&elq2=05584664dc814c0fba71b4bcc567b517&utm_source=25899

PART 2: CLEAN CAR STANDARD

Part 2A: How the Clean Car Standard would work

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

Key recommendations

The MIA opposes the Clean Car Standard 'as proposed' in the discussion document.

We recommend the Government dismisses the proposed methodology, standard and targets and that it works instead with industry to design a new proposal.

The MIA recommends Government/industry working group develop a road map for the design and implementation of a fuel economy standard for all vehicles as they first enter the NZ fleet.

The MIA suggests a five/six delegate team from the MIA work with both the Ministry, either along-side or separately to delegates from the VIA. We would propose we start week of the 23- 27 September as a matter of urgency, to allow time for at least 3 further meetings before the Christmas break.

What we wanted to say but can't due to poor design (methodology) of the proposed standard

The Minister is aware that while we have publicly opposed the introduction of a fuel economy standard, we **might be** willing to consider it, for several reasons, if the standard is designed correctly.

However, as much as we actively pursued this outcome, and we did so vigorously, the analysis we carried out showed that the current proposal is, in our view, structured completely wrong and that its underlying methodology can't be fixed.

The MIA recommends that Government establishes a Government/industry working group to develop a road map for the design and implementation of a fuel economy standard for all vehicles as they first enter the NZ fleet.

It is our view that the Clean Car Standard, as proposed, will not achieve the outcome the Government wants, nor what we want as the new vehicle import sector. It ignores unique New Zealand market conditions and is regressive.

We need to find an alternative design of a standard that will work.

With the eight band proposal in the discussion document, our modelling shows that across all weight bands, industry will be forced to pay heavy penalties, resulting in significant price

increases across all models and some small vehicle models will be forced out of the marketplace ahead of larger less fuel efficient vehicles. It simply becomes a tax on all new vehicles.

We fail to understand why eight bands were chosen, which is a unique approach to the design of a fuel economy standard. Officials advised the MIA several times when meeting with this that:

- They think this is a fairer approach. Our analysis shows it is not.
- That it is based on the approach adopted in Europe. Our view is the proposed approach in the discussion document has no resemblance to the European approach. The European approach is fundamentally different in the way vehicle weight is considered, and that they split light commercial vehicles out from passenger and SUV. These two distinctions make the European methodology operate in a significantly different way than what is proposed in the discussion document.

Consequently, the proposal carries significant political risk as the public will not understand:

- why small vehicles become the first casualty of a fuel economy standard
- why the price of all vehicles increases under the scheme
- Trades people and farmers will not understand why the price for light commercial vehicles, particularly utes, will increase by \$8,000 to \$10,000 or more when combined with the vehicle discount scheme particularly as they have no other choices available to them for the purchase of low emission vehicles. It will be viewed as a tax grab.

Private and business consumers will react negatively to an indiscriminate tax on new vehicles.

Key finding

The reasons the proposal will not work as intended are many and varied, but fundamentally the principle reasons are poor methodology of the standard, aggressivity of the proposed targets, timelines to achieve those targets and the penalties imposed if those targets are not met and it is not consistent with the way a fuel economy standard works in other parts of the world.

The proposed standard ignores unique New Zealand market characteristics and imposes different requirements on new vehicle importers to that of used vehicle importers. Consequently, the proposed policy fails to set minimum environmental standards in a way which avoids market distortions, i.e. does not create a level playing field for market participants.

If implemented as proposed, the clean car standard:

- Will at best add significant price increases on most models from very small cars to the large end of the light vehicle fleet.
- At worst, could force several distributors to cease trading in New Zealand.
- Is overly punitive on those that currently import small vehicles which perform well below the current industry average CO2 emission levels.
- Will lead to significant market distortions between new vehicle distributors, let alone between new and used vehicle importers.
- Incentivises used vehicle importers to move away from the importer model to an agent model whereby the agent never owns the vehicles, but merely facilitates

individual car purchases for New Zealand consumers from overseas sellers. Those adopting this practice will not be subject to the standard as proposed.

- Fails to adequately recognise long model run cycles, overseas requirements for low emission vehicles or that no manufacturer makes vehicles unique to the New Zealand market.
- Fails to recognise that models currently retailed overseas can't be immediately imported into New Zealand due to the testing/verification and homologation process required to ensure each model sold in New Zealand has the right equipment for this market.

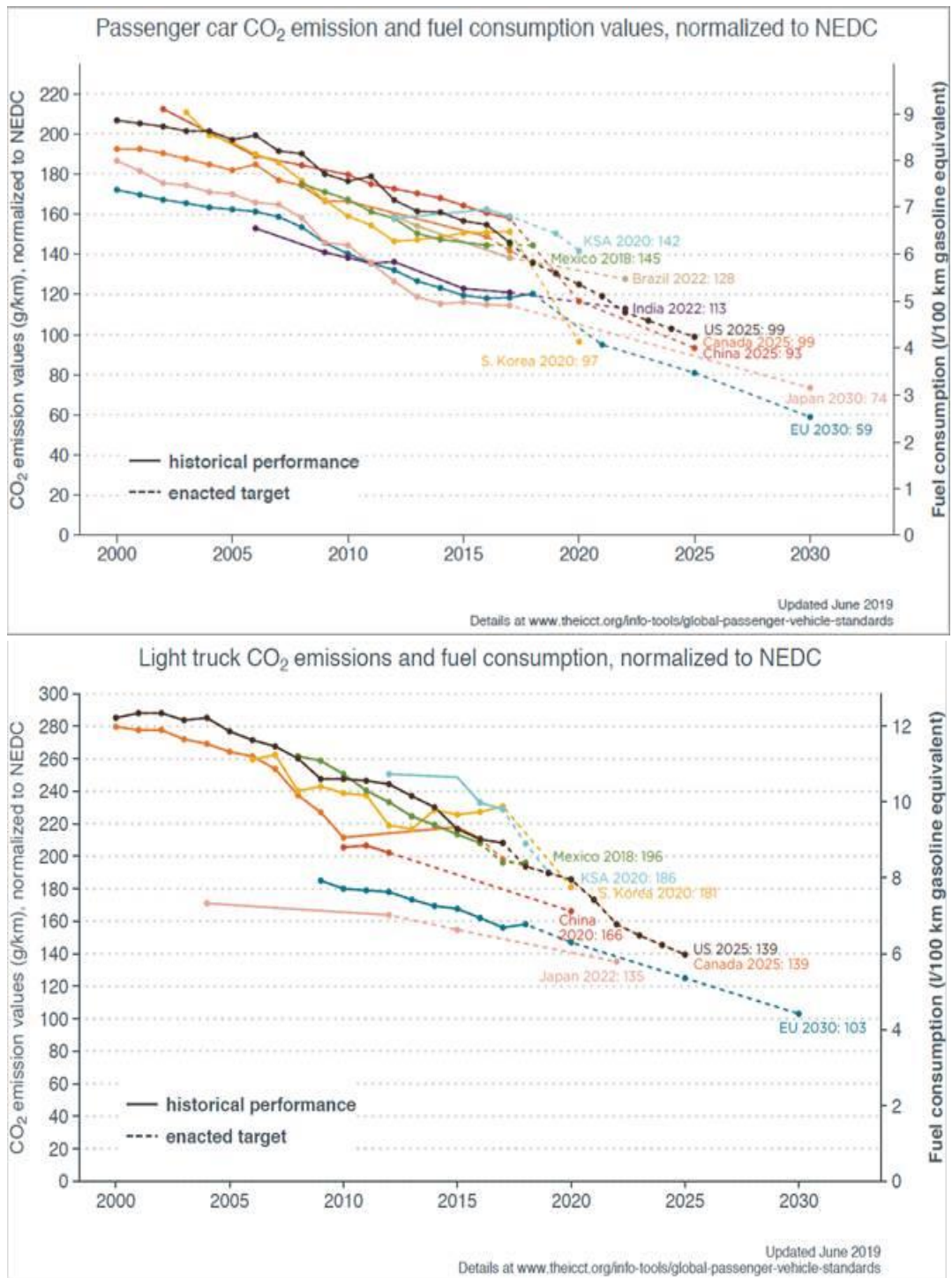
The MIA has received advice (meeting discussion) through one of its members from the International Council on Clean Transport. On page 11 of the discussion document it shows a graph with the Title: "Comparison of Global CO2 regulations for new passenger vehicles", quoting the source as ICCT (January 2019): *Policy update..... Passenger and light-commercial*" and we wanted to explore some of the background information around that information.

*While the discussion document implies this is for all light vehicles **it is not**. The graph is passenger only which includes SUVs.*

Disappointingly, the discussion document goes from there to then talk of passenger and LCV together, implying and further cementing the idea in the discussion document that the source graph covers all light vehicles.

The ICCT originals are replicated below and are two distinct separate CO2 Performance / Targets graphs for Passenger and Light Commercials (their term is light truck, but it is under 3500kgs). It shows countries **do not** combine the two targets.

The first graph below is the one in the discussion document that officials added the NZ trend line to. The second graph below is the omitted ICCT graph.



This is a critically important point.

Having sought clarification from the ICCT on their graph in the discussion document, again through one of our members we discussed, informally, three key questions.

Q: What are the global differences between Passenger and Light vehicles and how countries treat them?

Their advice is that there are no countries at all that have set Emissions Standards that combine Passenger with Light Truck/LCV/Light Commercial. Europe has separate targets for

commercial vehicles whereas the USA has split SUV into light and 4x4 large and put light SUV into Passenger and 4x4 large SUV into Light Truck. Canada followed suit and those are the only variations globally.

Q: Would you combine Passenger and Light Truck if you were trying to reduce uptake of LCV/Light Truck to 'downsize' to Passenger?

Their response was no, however, the ICCT can see why it's a topic of interest given the recent NZ Clean Car Standards Proposal. In the discussion the ICCT noted:

- that countries all faced the same issue,
- that often 'light trucks' (vehicles) and passenger are representative of different industries, different Associations, different productions, some are different companies and distributors too, and
- sometimes different departments in governments, they've found it difficult to get agreement and consensus or practicality on one standard, most never tried, it seems to always end up separate".

Q: Ignoring Trucks/Utes - Do you think NZ has a chance of achieving 105g/km by 2025 for just Passenger? What would you set as a target?

The MIA accepts this was an unfair question to ask them, but useful to get their perspective. They were quite diplomatic, but they noted we won't achieve passenger 105g/km (even with light commercials taken out of the target), as we are too late unless the country is prepared to change really quick and take the pain. They also noted, something the MIA is concerned about, if we can even get the cleaner cars, given any brand operating in Europe is facing big penalty costs for not achieving 2020 and 2023 targets, the cleanest production will go there.

This illustrates that our market is too small, even with a standard, for them to worry about. Their opinion is that there is no point setting a target no-one achieves, as penalties will distract everyone and will get passed on to customers. So everything goes up and this dilutes the improvement rate, not increases CO2 improvement rates.

Is an average emissions target of 105 grams CO2 per kilometre by 2025 an appropriate target for New Zealand? If not, why not?

Key Recommendation

The MIA recommends that should the Government agree to dismiss the current proposal and set up a working group to develop a road map for the design and implementation of a fuel economy standard, any resulting targets:

- are set out to 2030 with interim targets for 2025
- that there are separate targets for passenger/SUV to that for light commercial vehicles, and
- that the basis for target setting is formula based modelled with reference to the methodology used in European fuel economy standard.

For reasons noted above and in the next section below, the MIA cannot support a target of 105 grams CO2 per kilometre by 2025. The rate of reduction from our starting point would require a 41% drop in emissions from now to 2025. This is simply impossible. No country anywhere has achieved that rate of reductions.

The average year on year reduction of CO2 emissions from the new vehicle fleet entering the market (on a sales-weighted average) is about 1.5% per annum. We expect this accelerate going forward with the progressive introduction of new technology.

Effective design of fuel economy standard takes into consideration a country's starting point and then accepts from that point, reduction rates can only match the rate at which they have improved in overseas markets. Being a technology taker, we cannot lead markets where the technology is made.

What effect do you think the Clean Car Standard would have on vehicle supply and prices?

See the MIA models supplied with this submission.

During the consultation phase, we (MIA) shared our model of the proposal (MIA CO2 fiscal impact Model of the proposed fuel efficiency standard 2019.xlsx) with officials, the Minister, other trade associations and other political parties. Our purpose in sharing this data was for each of the groups to understand the fiscal impacts of the proposed standard if implemented. We want any discussion to be focused on facts, not opinions.

That model examines several scenarios, using a 2019 sales-weighted annual market profile. The scenarios are:

- Net effect of the credits and penalties if CO2 reductions track at business as usual rates. The level of accumulated fees based on the Government's proposal would be in the order of \$1.3billion.
- Net effect of credits and penalties if industry can achieve best rates of CO2 reductions, would require an increasing rate of model swap out of pure ICE vehicles for vehicles with increasing levels of electrification, ie mild hybrid, full hybrid, plug-in electric hybrid (PHEV) and full battery electric vehicles (BEV). The level of accumulated fees based on the Government's proposal would be in the order of \$667million.
- The extent to which CO2 emission reductions has to be achieved across the new light vehicle sector just to reach a neutral credit/penalty position, is around a 27% in six years. This is three times the rate of current year on year improvement and is not considered possible to achieve.

A 27% reduction in CO2 emissions over six years (to the end of 2025) is not possible, let alone the required 41% the benefit cost analysis was based on!

The COVEC model, using prices elasticities, looks at the effects of the Standard combined with the discount and models the net effect. It predicts a drop in the sales of vehicles due to price increases.

The COVEC model also combines the net effect of the Clean Car Discount with the Clean Car Standard. It demonstrates the value of these two policies working in combination with each.

Based on this modelling, the MIA has firmed up on its view that:

- Demand side policies are more effective than supply side policies.
- Before establishing a fuel economy standard Government should first ensure there are demand side incentives in place. A fuel economy standard without any demand side incentives will not work in the way Government intends.

PART 2B: HOW COULD THE CLEAN CAR STANDARD BE IMPLEMENTED?

Do you consider the overall process outlined for the Clean Car Standard is workable? If not, why?

Key finding

The proposal will not work due to aggressivity of the proposed targets, timelines to achieve those targets and the penalties imposed if those targets are not met.

The design of the proposed standard is not consistent with the way a fuel economy standard works in other parts of the world.

Analysis of other countries' experiences with fuel economy standards and adjusting them for a unique New Zealand marketplace suggests that a fuel economy standard should have the following characteristics.

1. Achievable CO2 reduction targets, sensible timelines and adjustable penalties. In the New Zealand market this would mean:
 - a) Ensure there is no ambiguity over the units of CO2 measurement (ie NEDC/WLTP and conversion rates between the two protocols).
 - b) Have a target curve that is lower in the earlier years and extends over a period in which all distributors change all models (model mix) within the commitment period. The period 2022 to 2025 is not long enough, it needs to extend to at least 2028 and preferably to 2030.
 - c) Similarly, for the penalty, start with a lower fine per gram in the early years then ramp up in later years. Again, this needs to extend over a commitment period where all distributors can change their model mix, ie extend longer than the current model mix in the market. This allows distributors to negotiate with their manufacturing parents without putting them out of business, if targets are not met in the early years.
 - d) Make an allowance for super credits. The best options for this are to target extra credits for PHEVs and BEVs. Vehicles with the 20 g/km CO2 to 50 g/km CO2 range should get 1.5 credits for every vehicle sold and vehicles under 20g/km should get 2 credits for every vehicle sold.
 - e) Should also consider the applicability of off-cycle credits
 - f) There are other super credit schemes operating in overseas jurisdictions but these are complicated and come with a high compliance cost. A simple super credit scheme that is easy to understand and easy to track is preferred.
2. Sensible grouping of vehicles with unique targets for each group
 - a) In other jurisdictions light commercial vehicles have their own class target. This reflects the nature of this type of vehicle and the work that they are required to do.
 - b) It recognises that there are far fewer choices of dramatically cleaner vans & utes than there are with passenger vehicles, meaning trades can't move to cleaner cars by choice.
 - c) Link this separate group with a change in the fringe benefit tax (FBT) rules. If FBT were payable on the personal usage for all commercial vehicles as it is for

passenger vehicles, then it is highly likely some people who are choosing utes who don't really need a ute would choose a cleaner passenger vehicle alternative.

3. Integrated with other policies

- The mix of new and used imported vehicles is unique compared to countries where a fuel economy standard is in place. As such, there is little overseas experience to reference when considering how a fuel economy standard can be leveraged with complementary transport policies. A fuel economy standard should link to safer vehicles policies, especially the new road safety strategy that has recently been out for consultation.
- The current cleaner cars proposal (especially the feebate) encourages less safe products and PHEV, BEV products near the end of their life. The proposal to use the safety ratings is right in theory but naively flawed in practice as all the safety ratings are different from different sources (many have no rating at all). In this regard, a rolling age ban in conjunction with entry standards is a simple way to improve the safety of cars coming onto the fleet immediately. (We would like an 8-year limit, but even a 10-year limit would be better than what is proposed.)
- The Government could usefully revisit its policies around biofuels. Biofuels could be a useful way to reduce emissions, especially in the heavy vehicle fleet. There is scope to increase the volume of biofuels in the New Zealand by upping the current manufacturers recommended levels and with enough lead time plenty of room to have higher tolerant biofuel vehicles.

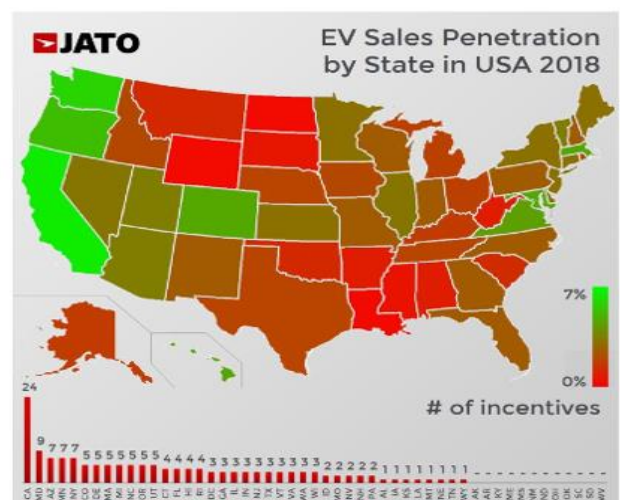
4. Standards alone are not enough to drive change. An analysis by the International Council for Clean Transport indicates that complementary incentives are required to leverage the effectiveness of a fuel economy standard.

European countries new plug-in passenger car registrations and market share^[21]

Country	PEV registrations 2017	PEV registrations 2016	Change 2016-2017	PEV market share 2017	PEV market share 2016	BEV/PEV 2017
Norway	62,170	44,888	39%	39.2%	29.0%	53%
Germany	53,561	24,626	117%	1.6%	0.7%	46%
UK	48,395	39,044	24%	1.9%	1.5%	28%
France	36,888	29,205	26%	1.8%	1.5%	69%
Sweden	20,031	13,415	49%	5.3%	3.6%	21%
Belgium	14,654	9,390	56%	2.7%	1.7%	18%
Netherlands	9,160	22,875	-60%	2.2%	6.0%	87%
Switzerland	8,029	5,432	48%	2.6%	1.7%	58%
Spain	7,448	3,662	103%	0.6%	0.3%	53%
Austria	7,265	5,063	43%	2.1%	1.5%	75%
Italy	4,827	2,831	71%	0.2%	0.2%	41%
Portugal	4,237	1,873	126%	1.9%	0.9%	42%
Finland	3,055	1,432	113%	2.6%	1.2%	16%
Iceland	2,990	1,158	158%	14.1%	6.3%	29%
Hungary	1,126	310	263%	1.0%	0.3%	67%
Luxembourg	962	306	224%	1.9%	0.6%	36%
Ireland	945	673	40%	0.7%	0.5%	66%
Denmark	913	1,402	-35%	0.4%	0.6%	77%
Poland	907	270	236%	0.2%	0.1%	52%
Czech Republic	630	363	74%	0.2%	0.1%	62%
Slovenia	528	272	94%	0.7%	0.4%	64%
Slovakia	394	55	816%	0.4%	0.1%	53%
Romania	374	162	131%	0.4%	0.2%	62%
Greece	163	47	247%	0.2%	0.1%	21%
Turkey	108	127	-15%	0.0%	0.0%	71%
Latvia	101	48	120%	0.6%	0.3%	70%
Cyprus	99	39	154%	0.8%	0.3%	44%
Lithuania	70	81	-14%	0.3%	0.4%	69%
Estonia	52	56	-7%	0.2%	0.3%	50%
Bulgaria	61	12	408%	0.2%	0.1%	18%
Malta	53	17	212%	0.4%	0.1%	91%
Croatia	23	88	-74%	0.1%	0.2%	36%
Europe	290,279	209,220	39%	1.7%	1.3%	46%

A breakdown of the US EV market by State shows more incentives equals more sales

The electric vehicle and plug-in electric vehicle market (EV) by state in the US confirms the correlation between an increase in incentives and an increase in sales. This is also the case in Europe where Norway leads the market, thanks to its strong incentives programme. Our latest research shows that the current Tax Credits and Other Incentives structure in the US is not only unequal among states, but it also shows where demand is growing at the fastest rate.



Key recommendations

The MIA recommends that Government forms a working group of Government and Industry to negotiate a road map for the introduction of sustainable long term process on how a fuel economy standard is designed and implemented in NZ.

In considering the design and methodological basis upon which a fuel economy standard could be based, the working group should take into account:

- Using the same methodology as for the European standard, which is a formula based approach
- Targets reach out over multiple model periods
- Super credits are provided for
- Care is taken so that the fuel economy standard leverages any incentives in place
- Care is taken so that the fuel economy standard complements the range of other emission reduction policies in place
- Penalties are set to encourage compliance and are not overly punitive.

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?

Key recommendation

The MIA recommends that Government forms a working group of Government and Industry to negotiate a road map for the introduction of sustainable long term process on how a fuel economy standard is designed and implemented in NZ.

In doing so, the working group develop a workable policy to ensure all vehicles, other than genuine private vehicles, entering the NZ fleet for the first time are included in the fuel economy standard.

Under the current proposal, if implemented as is, we will see the used vehicle sector quickly adopt a different model of operating. Based on our long term experience with the used vehicle import sector, it includes operators who will exploit loopholes whenever they get the opportunity to do so. While there are good operators, it is well known that the used import sector contains elements of opportunistic behaviour which have demonstrated a wide range of poor practice. For example:

- Overseas sellers and New Zealand importers have over the years engaged in fraudulent and criminal activities including:
 - Customs valuation fraud
 - odometer winding, and
 - fraudulent documentation, including Japanese de-registration certificates.

- The importation of damaged, including severe water written off vehicles, which have subsequently been repaired and sold to unsuspecting buyers without full disclosure of the vehicle's history
- The importation of stolen vehicles and money laundering
- The importation of vehicles which were re-engineered from half cuts.
- Importation of vehicles with well-known open recalls with subsequent on-sale to NZ owners without disclosure of the recall status of the vehicle.

The rules applying to the used vehicle sector need to be robust otherwise operators will find ways around complying.

We know of one model already operating that is not caught by the proposals in the discussion document. The model in question is where a NZ company acts on behalf of the private importer. The individual selects the vehicle they want from a list the agent supplies, then the agent facilitates the purchase at auction, facilitates exit and entry compliance and delivers the vehicle to the NZ owner. The NZ owner takes all the risk and is the importer.

We would expect the rest of the used import sector to rapidly follow suit as each owner is importing less than three vehicles a year and they are not dealers.

Other concerns we have with the proposals is that an importer/dealer will likely adopt the model of above or remain operating as they are now but run their company for 11 months and three weeks of the year then close down. They will then create a new company with different directors but familiar share ownership thus avoiding paying any penalties accrued in their first year of operations.

More thought is required to find a way in which all used imports meet the standard. This is another reason why the MIA recommends the establishment of a government/industry working group to develop a road map for the design and implementation of a fuel economy standard for all vehicles as they first enter the NZ fleet.

Phasing in the emissions target of 105 grams CO₂ per kilometre

Do you support phasing-in the 105 grams CO₂ 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.

Given our response to previous questions, answering this one is redundant. If our recommendation to set up a working group to develop a road map for the design and implementation of a fuel economy standard for all vehicles as they first enter the NZ fleet is accepted then the working group will consider what is the best way to structure a standard.

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

Key finding

One of the reasons why the proposal is not supported by the MIA is the aggressivity of the target within an unreasonably short period of time.

The key issue with the standard as proposed in the discussion document is that the target timeline is too short, and the level of the target is too aggressive.

When setting up a government/industry working group to develop a road map for the design and implementation of a fuel economy standard for all vehicles as they first enter the NZ fleet, one of the key decisions the group will make is how the target is calculated and over what time period it should apply.

Weight-adjusted Standard

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

Key finding

The weight banded approach proposed is unworkable, unfair and poorly constructed.

This issue is the most challenging one from a policy perspective to resolve. But there are existing precedents that we can have regard to when assessing how a fuel economy standard might work in a NZ context.

The proposed eight bands combined with the 105 grams/km CO₂ will mean not one distributor, apart from Tesla, is able to reach the targets without paying penalties.

As already explained in previous sections of this submission, we believe a fundamental flaw of the proposal is combining all light vehicles under the one target. We understand the intent of the bands was to try and even out the obligations across all types of vehicles, but this methodology is in our view unworkable. Besides creating perverse incentives to make your vehicles heavier, it fails to consider the technological inability within reasonable costs to electrify the smallest sized vehicles.

In the European market, unlike NZ, the light commercial sector is predominantly vans. There are more PHEV and EV options available in the van market compared to utes, because vans are sold in every market so are getting R&D development to help other markets achieve their fuel economy standards. Even with that R&D effort, the Europeans have recognised the light commercial market operates different to the passenger/SUV market and deserves its own separate higher target on a different, slower rate of reduction.

Penalties for non-compliance

Key recommendations

If the Government agrees with the MIA recommendation to form a working group of Government and Industry to negotiate a road map for the introduction of sustainable long term process on how a fuel economy standard is designed and implemented in NZ, then when considering penalties, it should:

- develop a penalty regime that starts low and ramps up over time, and
- ensures the rationale for and quantum of the penalty is clearly explained.

Do you support a penalty of \$100 for each gram CO2 per kilometre that a supplier of new vehicles exceeds its fleet target? If not, why?

No. The rationale for this level of penalty is unclear.

Do you support a penalty of \$50 for each gram CO2 per kilometre that a supplier of used imported vehicles exceeds its fleet target? If not, why not?

No.

Flexibility in meeting targets for a given year

Do you support the banking mechanism to provide flexibility for vehicle suppliers? If not, why?

This is a matter the future working group should consider. Best practice in fuel economy standards and how they work includes a level of flexibility and is key to successful implementation.

Do you agree that the new vehicle sector should have the added flexibility of borrowing? If not, why?

This is a matter the future working group should consider. Best practice in fuel economy standards and how they work indicates a level of flexibility is key to their successful implementation.

Do you support an arrangement for suppliers to pool their vehicles together to comply as a group? If not, why?

This is a matter the future working group should consider. Best practice in fuel economy standards and how they work indicates a level of flexibility is key to their successful implementation.

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?

See above.

Penalties for misreporting data

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?

No comment.

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?

The MIA has significant concerns that the proposal is not robust enough to capture used importers. Considerably more thought is required to develop a fuel economy standard that captures all used vehicles as they first enter the NZ fleet. The only exception should be for genuine private vehicles which have been owned and used overseas prior to importation into NZ.

Proposal to stop recognising vehicles assessed through the Japanese 10/15 test

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?

The MIA supports the removal of the Japanese 10/15 test, and further adds that any vehicles that are only tested to that standard should not be permitted to enter NZ.

CO2 Conversions Factors

There are some significant issues with being able to accurately compare WLTP, NEDC and JC08 results. Up until this point in time, the consequences of the differences between these test cycles has not been overly significant. However, policies that use the measurement of CO2 grams/km means that accurate measurement is important in order to create a level playing field. Small differences arising from the different processes can result in significant distortions. For example, a vehicle tested to the European WLTP standard will show a result that is about 30% higher than a vehicle tested to NEDC, meaning similar vehicles could end up with different CO2 obligations in the proposed policies.

One of the limitations of the current proposal is how to convert WLTP, JC08 and AFTP CO2 based calculations to NEDC. This is further complicated in that Japanese derived WLTP figures are based on low, medium and high measurements which is different from European based calculations which measures CO2 emissions at those rates plus the extra high step.

For a fuel economy standard to work effectively it is critical these details are established and agreed up front.

Fuel Quality Issues

It is important to note that for some distributors, having access to hybrid and/or PHEV technology will only be possible if they import vehicles that meet the Euro 6.2 compliant exhaust emission standards. Our fuel is not at the required standard for Euro 6.2, the level of aromatics in our fuel is too high.

This would need to be remedied prior to the implementation of any fuel economy standard.

Future emissions targets beyond 2025

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

See comments in earlier sections of this submission.

PART 3: CLEAN CAR DISCOUNT

Part 3A: How the Clean Car Discount would work

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

Key Recommendation

The Clean Car Discount, subject to a few changes, is supported by the MIA. It is a demand-based policy initiative that is easy to understand, highly visible to consumers and is aimed directly at influencing their purchase decision.

Eligibility for the discount is recommended to be set at \$100,000.

The proposal can be enhanced by:

- In theory, because all vehicles pay the penalty there should be no cut-off price point for rebates. In practice, political reality means there will be one. The proposal can be enhanced by lifting the current cut-off point from \$80k to \$100k.
- Clarify the policy to ensure the sale price paid by the vehicle purchaser is the price paid on the day. That is the actual sale price.
- As with above the policy should link in with other transport policies. A feebate scheme for relicensing (annual registration) could impact the whole 3.5 million vehicles rather than just the 300,000 coming onto the fleet every year. Although the Government has indicated it does not want to, at this stage, have differential annual registration fees, a CO2 reduction centric policy suggests it should.
- Low emission vehicles could be free, or attract a discounted fee, to relicense every year while high emission vehicles could be more expensive to relicense. Having this starting in 2022 would give consumers a chance to adjust, with a smaller feebate then ramp it up over time.
- Adjust the RUC rate for EV's and PHEVs to address the inequality that applies to PHEVs paying both RUC and fuel excise duty. The MIA suggests for consideration the RUC rate for PHEV's is set at \$20/1,000kms.
- Annual reviews should be conducted to ensure the scheme is self-funding

Part 3B: How could the Clean Car Discount be implemented?

Emissions benchmark levels

Is the emissions benchmark of 105 grams CO2 per kilometre by 2025 an appropriate one to have for the Clean Car Discount? If not, why not?

No. Given the MIA's comments under the proposed Clean Car Standard section of this submission, we believe the emission benchmarks need to be reviewed.

The most powerful tool available to Government to influence the type of light vehicles purchased in NZ, and therefore influence the type of vehicles importers source, is a policy like the Clean Car Discount (feebate). If the Government is really serious about wanting to see rapid change, then our view is that it needs to make the incentives bigger and clearer.

The extent/rate of change would still be subject to importers being able to source sufficient volume of low emission vehicles.

Would an initial emissions benchmark of 150 grams CO₂ per kilometre be suitable for the first year of the Clean Car Discount? If not, why?

Yes.

Fees and rebates sizes

Would the level of the fees and rebates in the example feebate schedules (Appendix 4) increase demand for low emission vehicles? If not, what changes would you make?

As outlined in our above comments, incentives are a powerful tool to effect change in consumer purchasing decisions.

Having said that, global disincentives have proved unpopular and difficult to legislate when applying to ALL classes and buyers of light vehicles when there are not fit-for-purpose alternatives, or limited availability of EV that are fit for purpose. It looks more like a tax disincentive, rather than a greenhouse gas/low vehicle emission incentive.

When considering New Zealand's unique vehicle profile, the commercial and agricultural sectors require vans and utes to undertake the heavy duty nature of their businesses. They are unfairly penalised under the proposed Clean Car Discount because in most cases there is no clear alternative low emission vehicles available on the market to undertake the range of tasks they require.

The MIA's view is that there should be relief for certain business sales on 4x4 Ute and Vans of high GVM kg. This could apply to Class NA vehicles over a GVM of 3,000kg, that attracts a credit relief 25% on any fees at point of sale. This would be restricted to purchases in the categories of business in 'Primary Industry', e.g. agriculture, aquaculture, forestry, dairy, building, construction, transport & logistics companies.

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?

Less change unless there is a dramatic uptake of low emission vehicles. The longer and higher the incentives, the more likelihood it accelerates changes to low emission vehicles.

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

Key Recommendation

The MIA strongly recommends that any vehicle previously registered overseas is treated as a used vehicle under the Clean Car Discount.

If near new vehicles are treated the same as new vehicles then this places an incentive on used importers to source 6-9 month old vehicles out of Japan and the UK. We know when this happens that the used import sector will walk away from any warranty and recall

obligations leaving the new vehicle distributors to mop up their tardy business practices for vehicles they have not had any financial gain from.

For example, recent history with the Takata airbag recall shows that the gap in costs between what a NZ distributor gets from their parent company and what it actually cost to replace the faulty airbag in used imported vehicles mounted collectively to about \$22m. It was not possible to recover this shortfall from used importers even though under our law they are responsible for meeting these costs.

There are also issues with vehicles designed for either Japanese or UK conditions not being suitable to NZ roads. Increasingly the fitment of safety assist and semi-autonomous functions are country specific. There are real and material safety risks with importing vehicles into NZ which are designed for other markets.

One point in particular is concerning. BEV's made for the Japanese market currently would not pass more than two stars on an ANCAP/Euro-NCAP test. Electric vehicles made for the Japanese market have several structural safety bits missing as these are not considered important for the Japanese market. Omitting these make the vehicle lighter and go further on a charge. We do not recommend these vehicles are imported into NZ.

When Japanese manufacturers make vehicles for overseas markets where ANCAP and Euro-NCAP are a feature of how the market operates they make the vehicles stronger. This comes as a weight penalty, but significant increase in safety.

How wide should the zero band be?

Do you think a zero band is appropriate? If not why?

Yes it is.

How would consumers get their rebates and pay their fees?

Do you support the proposal to apply the fees and rebates directly at the point of vehicle purchase? If not, why?

The way in which the Clean Car Discount works in practice needs further development. There is potential for unnecessary administrative burdens in its implementation if not designed properly.

Currently there is insufficient detail on how the discount would work in practice.

We recommend officials meet with industry to agree the detail how to operationally implement the discount, with the aim of applying the discount or fee at the point of sale.

Do you support the penalties outlined in this section to ensure that fees and rebates are displayed on each vehicle and are correctly applied by vehicle suppliers? If not, why?

No.

Appendix One – 2019 Membership Profile of the MIA

The Motor Industry Association represents three broad sectors within the New Zealand new vehicle importer/distribution network, being:

- Light vehicles made up of passenger cars, SUVs and light commercial vehicles. The light commercial vehicles are dominated by utes and vans.
- Heavy vehicles
- Motorcycles, which is broken into four segments being two wheel on-road, two wheel off-road, ATVs (quad bikes) and ROVs (side by side small utility vehicles).

Collectively this group covers 43 Distributors with around 85 unique brands.

In terms of the Clean Car policies the following MIA member Distributors and Brands caught by the proposed policies are set out below.

Light Vehicle MIA Member Distributors	Brands
The Ateco Group	RAM, Alfa Romeo, Chrysler, Dodge, Fiat, Jeep
Auto Distributors NZ	Citroen, Peugeot
BMW NZ	BMW, Mini
European Motor Distributors NZ	Audi, Porsche, SEAT, Skoda, VW
Ford NZ	Ford
Great Lake Motors	LDV, SsangYong
Haval	Haval, Great Wall
Holden NZ	Holden, HSV, Chevrolet
Honda NZ	Honda
Hyundai Motors	Hyundai
Inchcape	Subaru
Isuzu Utes	Light Isuzu vehicles (heavy Isuzu are distributed separately by Holden)
Kia NZ	Kia
Mazda Motors NZ	Mazda
Mercedes-Benz NZ	Mercedes-Benz
Mitsubishi Motors NZ	Mitsubishi
Motorcorp Holdings	Jaguar, Land Rover, Volvo
Nissan NZ	Nissan
Suzuki NZ	Suzuki
SAIC Motor NZ	MG
Toyota NZ	Lexus, Toyota