

Cabinet decisions on the changes sought by the vehicle industry to the proposed Clean Car Standard

19 February 2021

In this document, we've summarised the changes sought by vehicle industry on various aspects of the Clean Car Standard and detailed what was agreed by Cabinet on 26 January 2021.

The complete Cabinet document and associated briefings on the Clean Car Standard will be proactively released late February 2021.

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Emission target

The discussion document proposed a national fleet average target of 105 grams of CO₂ per kilometre in 2025.

Change sought by industry

The MIA requested that the timeframe be extended out to at least 2028, but preferably 2030. Other key participants, such as Toyota New Zealand, submitted that the target should be lowered to 130 grams by 2025.

Decision by Cabinet

The timeframe for the 105 grams target was maintained at 2025.

A target year of 2025 reflects the Government's desire to make significant reductions to CO₂ this decade and be on track for net zero CO₂ by 2050.

A 2025 target year will be challenging for the industry. Consequently a number of changes were made to make the target easier to achieve:

- Utes and Vans to get a separate target.
- Transfers – a more flexible way for overachievers to sell credits to underperformers.
- Annual phase in – changes to make the targets easier to achieve in earlier years.
- A review of target levels in 2024
- Borrowing (making up an underachievement in the following year) has been retained.

In January, the Government also announced its intention to bring in incentives for clean cars.

2030 and 2035 Provisional Targets

A provisional target for 2030 and for 2035 will also be set later this year, following final advice from the Climate Change Commission. An initial advice report from the Climate Change Commission is publicly available at <https://www.climatecommission.govt.nz/get-involved/our-advice-and-evidence/>

The 2030 and 2035 provisional targets will be finalised closer to their date.

Have separate targets for passenger vehicles (LPVs) and light commercials (LCVs)

LPVs are cars and SUVs. LCVs are vans, utes and small trucks

Change sought by industry

There should be separate emission targets because:

- the rate of the annual efficiency improvement of light commercial vehicles has historically been lower than passenger vehicles
- the technologies to significantly lower emissions from utes and large vans lag those of passenger vehicles
- all other jurisdictions have separate targets.

Decision by Cabinet

There will be separate targets for LPVs and LCVs. The 2025 targets will be 102 grams for LPVs and 132 grams for LCVs.

This compares to Europe setting a target of 95g in 2021 for LPVs and a target of 125g for LCVs in 2025. Setting targets that are less stringent than those in Europe provides more time for sufficient supply of cleaner cars to grow and for their prices to reduce.

In proceeding with this recommendation we note the risk with separate targets. This is that if LCVs face a less stringent target, then once lower emission LCVs become available, suppliers will be incentivised to continue to market LCVs as LPVs. This would increase the number of LCVs sold and slow the decline in average vehicle emissions. Currently utes are being marketed as “lifestyle vehicles” and there is a risk that this will intensify.

Light commercial vehicles will be defined as those that meet the definition of one of the following existing vehicle classes: NA, MC¹, MD1², MD2³ and MB⁴.

¹ MC is an off-road passenger vehicle.

² MD 1 is an omnibus that has a GVM not exceeding 3.5 tonnes and not more than 12 seats.

³ MD 2 is an omnibus that has a GVM not exceeding 3.5 tonnes and more than 12 seats.

⁴ MB is a passenger vehicle that has not more than nine seating positions and in which the centre of the steering wheel is in the forward quarter of the vehicle’s total length.

Phase-in of the targets

The discussion document outlines two approaches for phasing in the headline target 105 grams target, which are either:

- having annual targets that progressively lower to 105 grams
- subjecting an increasing percentage of a supplier's fleet to the 105 grams target.

Change sought by industry

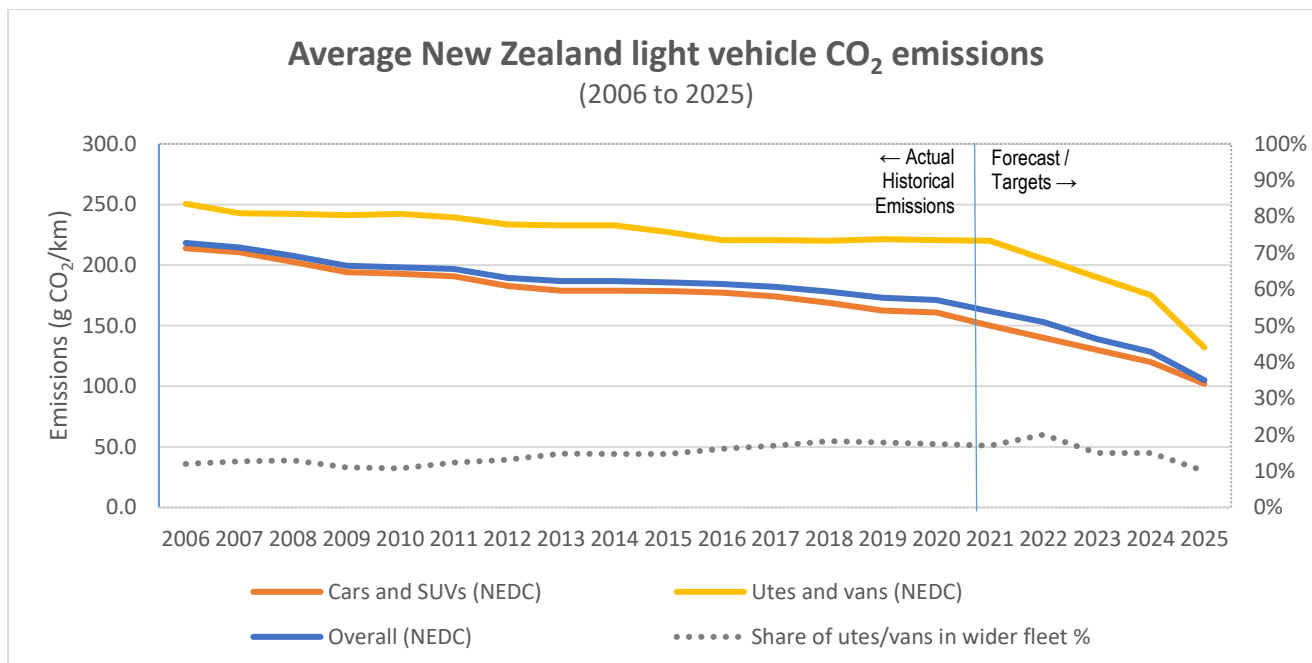
Most industry submissions did not comment on a preferred approach. Of those that did comment, the multiple annual targets approach was preferred.

Decision by Cabinet

The 2025 targets will be phased in through multiple annual targets. Annual multiple targets better communicate the need for all vehicle segments to achieve emission reductions.

The phase in differs from the consultation agreement. The targets for early years have been set higher (easier) for LCVs, given there are currently fewer such vehicles available with a low or zero emission vehicles technology. This means the industry will have to reduce emissions quicker in the later years of 2024 and 2025. There is also an assumption that although ute sales grow in the very short term, a proportion of ute sales will then shift to SUV sales, given both the popularity of SUVs and the better availability of hybrid and electric SUVs.

The 2021 and 2022 years assume the industry and buying public both take steps to reduce vehicle emissions in the car and SUV segment, where more lower emission vehicles are available. The graph and figures below show the annual phase in targets. They combine both used and new vehicle imports.



	Grams CO ₂ /km (NEDC)	2020 actual	2021 projected	2022	2023	2024	2025
2021 Cabinet decision	Cars and SUVs	161	150	140	130	120	102
	Vans and Utes	220	220	205	190	175	132
	Average (of all vehicles)	171	162	153	139	128	105
2019 Consultation (Average of all vehicles)				161	142	124	105

Level of penalties

The penalties proposed in the discussion document were:

- \$100 per gram a new vehicle fleet is over its target
- \$50 per gram a used-import fleet is over its target.

Change sought by industry

The new vehicle sector considers the penalty rate to be too high and too severe. In its view the penalty should start low and ramp up over time. It has proposed initial penalties of \$25 per gram. It also wants the penalty to be the same for the new and used-import vehicle sectors.

The used-import vehicle sector disagrees that the penalties should be the same. In its view, as the proposed fees and discounts in the Clean Car Discount consulted on in 2019/20 are lower, penalties within the Standard should also be lower.

The CO₂ standard legislated in Europe has a much higher charge of NZD164 per gram.

Decision by Cabinet

Cabinet agreed to halve the charges initially, and raise them over time, to help the market to transition:

Application of the Standard	Charges From 1 January 2023	Charges From 1 January 2025	Measurement
The Standard is applied to individual used imported vehicles	\$20	\$30	per gram CO ₂ that a vehicle exceeds its target
The Standard is applied to individual new imported vehicles	\$40	\$60	per gram CO ₂ that a vehicle exceeds its target
The Standard is applied annually to new vehicle fleets	\$50	\$75	per average gram CO ₂ exceedance x the number of vehicles in fleet
The Standard is applied annually to used-import fleets	\$25	\$37.50	per average gram CO ₂ exceedance x the number of vehicles in fleet

Cabinet agreed provisionally to increase these charges in 2025, subject to a review of the effectiveness of their incentive effect, in the first half of 2024, and repeat such a review from 2027 on a five year basis.

The introduction of charges from January 2023 provides 12 additional months without charges compared to the original expectation set by the consultation.

Have a biennial review of the emissions target and its associated annual emission targets

Change sought by industry

Toyota recommends that given the severity of the penalties associated with the emission targets, there should be a biennial review process. The first review could be in 2022.

Decision by Cabinet

To help build confidence to proceed with the Clean Car Standard there will be a review of the suitability of the mandated targets in 2024.

If the targets prove too ambitious, the targets will be reset. Conversely, if the targets are too low, they will be strengthened. It is likely in 2024 that targets will be set for several subsequent years into the decade.

To mitigate the risk of the review undermining the perceived durability of the Clean Car Standard, the review will focus on what the industry leaders in emission reductions are achieving.

Setting the first review for 2024 allows one year of the full Standard (with charges) to occur before the review is conducted.

After this review, the ongoing review period will be 5-years. For example, a review of the 2030 target would occur in 2027 and a review of the 2035 target would occur in 2032.

The reviews would be informed by the Climate Change Commission's rolling set of three 5-yearly emission budgets.

Adjust suppliers' targets by vehicle weight through a formula rather than using weight bands

Change sought by industry

As in the European Union, a formula should be used to adjust suppliers' targets by vehicle weight, rather than the proposed approach of weight bands. This is because a formula is fairer. It assigns targets to each vehicle on the same basis. In contrast, with weight bands the heaviest vehicles in a weight band receive the same target as the lightest ones in that band. In effect, this places a stricter target on the lighter vehicles in a weight band.

Decision by Cabinet

A formula will be used to adjust suppliers' fleet targets by vehicle weight.

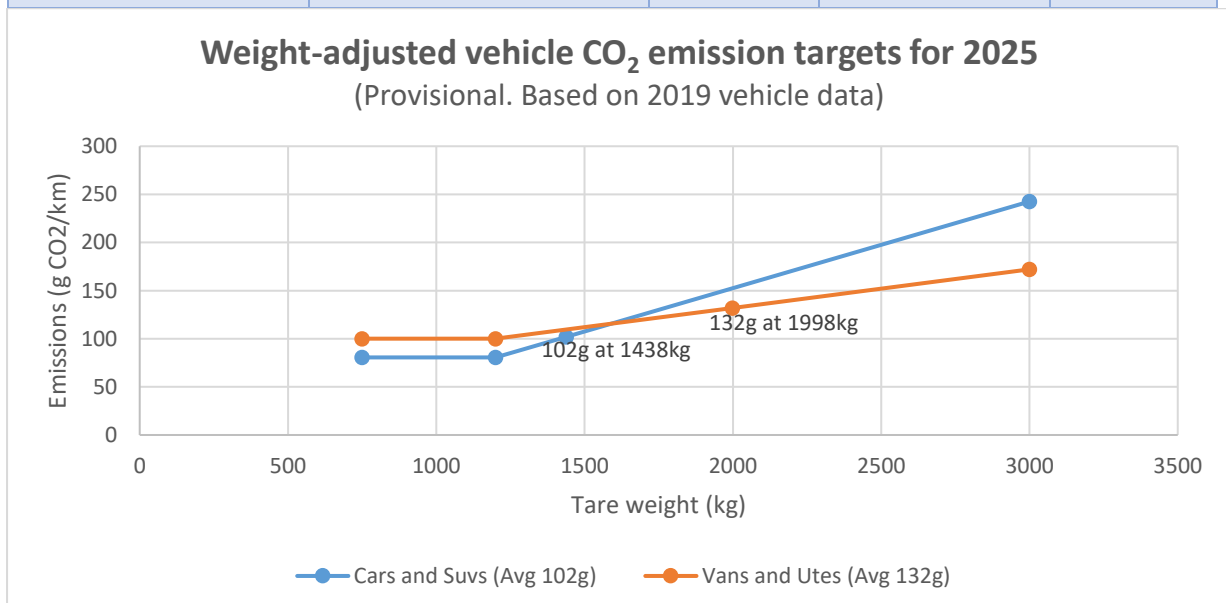
The formula would follow the European approach but it will use the New Zealand emissions target and variables reflecting the vehicles entering our market. The formula would be:

Supplier's CO₂ fleet target = *vehicle class target* + *a* x (*M*-*M*₀)

- *Vehicle class target* = 102 for cars and SUVs and 132 for Utes and Vans (g CO₂/km).
- *a* = the slope of the limit line. This line will be derived through correlating vehicle tare weights and vehicle emissions of the fleet of vehicles entering New Zealand in a past year.
- *M* = the weighted average tare weight of the vehicles imported by a supplier
- *M*₀ = the weighted average tare weight of all LPV (or LCV) vehicle imports
- Vehicles below 1200kg will be treated the same.

The figures for *a*, *M* and *M*₀ need to be recalculated with 2020 data before being finalised. Figures based on 2019 data are as follows:

Vehicle type	Sum of TARE WEIGHT (kg)	Count	Average weight (kg)	Alpha Coefficient
Car / SUV	348,915,405	242,673	1,438	0.09
Ute / Van	109,406,216	54,755	1,998	0.04
Fleet TOTAL	458,321,621	297,428	1,541	



Super credits

Super credits lower a supplier's average fleet emissions by artificially inflating the number of low emission vehicles in its fleet. For example, 1 EV in a fleet could count as 2 EVs, and 1 PHEV could count as 1.5 PHEVs.

Change sought by industry

Both the new and used-import vehicle sector support super credits because they:

- would further encourage the supply of ultra-low emission vehicles
- would help small vehicle suppliers comply with the weight-adjusted approach
- would make it easier for the used-import vehicle sector to comply
- apply in other jurisdictions.

Industry propose that PHEVs and BEVs receive super credits of 1.5 and 2 respectively. The credits could apply up to thresholds of 25 grams CO₂ for BEVs and 50 grams CO₂ for PHEVs.

Decision by Cabinet

No super credits were adopted in the design of the Clean Car Standard. This is because they would weaken the stringency of the emissions targets.

The Clean Car Standard would already provide a sufficient incentive for the uptake of EVs. This is because the more EVs a supplier has in its fleet, the easier it becomes to meet its average fleet emissions target.

Super credits have been applied in jurisdictions with vehicle manufacturing industries. In such a situation they incentivise research and development for the manufacturers. This is not the situation for New Zealand.

Off-cycle credits

Off-cycle credits apply to features like engine stop/start or air conditioning improvements that reduce CO₂ emissions.

Change sought by industry

Neither the new nor used vehicle sector now support off-cycle credits.

Initially, the vehicle industry said recognition should be given to off-cycle features because they deliver emissions reductions that tend not to be captured by the standardised emissions testing regimes.

Industry propose that PHEVs and BEVs receive super credits of 1.5 and 2 respectively. The credits could apply up to thresholds of 25 grams CO₂ for BEVs and 50 grams CO₂ for PHEVs.

Decision by Cabinet

No off-cycle credits were adopted in the Clean Car Standard because of the extra complexity they would add. As well, they would not be relevant in New Zealand as we do not have a vehicle manufacturing industry.

Banking, borrowing and grouping

Banking is the ability for suppliers to carry forward any annual overachievement of their emission targets for use to offset future underachievement.

Borrowing is the ability for suppliers to underachieve an annual emissions target and to make the underachievement up the following year by overachieving.

Grouping is the ability for one or more suppliers to contract with each other to count their vehicles as a single fleet, for the purpose of complying with the Clean Car Standard.

Change sought by industry

Banking and borrowing

The new vehicle sector supports banking and borrowing for its sector. It suggests the first 2-3 years should only be reporting, with actual compliance beginning in 2024.

GM/Holden suggested only reporting in the first year, reporting in the second and third years but with the ability to bank if necessary, and a full banking and borrowing mechanism in the fourth year.

The used-import sector has said banking and borrowing would be helpful for large players in its sector. The MIA is comfortable with this position.

Grouping

The new vehicle sector said they are unlikely to group. Nevertheless, the MIA consider it desirable to provide the ability to group.

Similarly, some in the used-import sector, such as Nichibo, see grouping working in their sector for large companies, but consider it unlikely to happen. However, the sector want this ability to be available.

The VIA has suggested the used-import sector could be treated as one large group.

Decision by Cabinet

Banking and borrowing

Suppliers in the new sector will be able to bank their overachievement for 3 years.

Suppliers can also borrow for 1 year, in the year charges would begin to apply (2023), until the end of 2025. From January 2026, banking will continue but no further borrowing shall be permitted. These abilities will also apply to suppliers in the used vehicle sector who opt to be within the annual fleet averaging regime.

The credits in the emission accounts of used-import suppliers will have a life of 3 years.

There will be a period of reporting before compliance with annual targets starts. The purpose of the reporting phase is to allow Waka Kotahi time to build the IT system and for suppliers time to test their systems of monitoring and reporting of their fleet emissions before being subject to penalties for non-compliance. This testing and reporting-only phase would commence on a date during 2022, once Waka Kotahi is ready, and end 31 Dec 2022.

From 1 January 2023 the Standard will be fully in effect to ensure progress is made in lowering average fleet emissions. This provides an additional year to the industry before fees apply compared to what was originally envisaged at the time of the consultation, due to the time it took for Cabinet to provide approval on this policy.

Grouping/Transfers

The Clean Car Standard will provide a mechanism for overachievers to sell their credits to underachievers. Implementation details have been revised to enable greater speed of transfer. This has been done to increase the ease for the industry to reach the 105g target within a more ambitious timeframe. We consider that some suppliers will overachieve their targets and that others will not, and thus, can benefit by buying credits from overachievers.

Rather than a formal grouping mechanism, we have opted to enable transfers. This allows suppliers more choice in that they can perform multiple transfers during a year, to different recipients, and do so without necessarily forming long term legal agreements between each other. Suppliers will negotiate among themselves any pricing or other conditions they see fit when carrying out transfers. Waka Kotahi will be permitted however to request an administrative fee on transfers to recover administrative costs.

Transfers will not be permitted across the used and new sectors. This reflects the fact that once in New Zealand, new and used vehicles have markedly different levels of life-time emissions. So conceptually, a low emitting used-vehicle can not offset the emissions of a high emitting new vehicle.

Preventing gaming and rorting

The discussion document proposed that the Clean Car Standard not apply to persons that imported only three or fewer vehicles in a year. This was to align with the legal position that these people are not required to be registered motor vehicle dealers.

Change sought by industry

The MIA has said the proposal to exempt people who import three vehicles or fewer from the Standard would open up the system to gaming and rorting.

Another way the Standard is likely to be avoided is by dealers voluntarily closing their businesses and resuming trading under a different name. The Motor Vehicle Sales Act 2003 (the Act) does not prevent this from occurring. Dealers who voluntarily surrender their registration under section 46 of the Act can re-register.

Decision by Cabinet

Mitigations to these issues have been agreed by Cabinet.

The proposal of fleet balancing on a vehicle-by-vehicle basis that the Imported Vehicle Industry Association has developed was agreed by Cabinet. This removes the ability of any supplier to avoid the Clean Car Standard.

As well, Waka Kotahi NZ Transport Agency will establish a register of motor vehicle importers. Every person who imports a vehicle would be required to be registered. The 'importer' will be the person/business entity required to comply with the Standard. Any non-compliant suppliers will be disqualified from this register.

This means that two regimes will exist: new vehicle distributors and used vehicle importers approved by Waka Kotahi will comply annually on a fleet basis, and, used vehicle importers and any individuals importing vehicles will comply on a per-consignment basis throughout the year.

Data accuracy

Change sought by industry

The industry has made it clear that having consistent CO₂ values across vehicles is key to the integrity of the Standard and the Discount. Currently New Zealand accepts vehicles tested through a number of different drive cycles. This can lead to different CO₂ values even for the same vehicle.

Manufacturer laboratory testing of new vehicles measures CO₂ values. These are then converted to fuel efficiency measures such as litres per 100km, which are commonly reported. Sometimes the trade uses fuel efficiency to calculate back to the CO₂ emission level.

The new vehicle sector has assessed that the difference between CO₂ values converted from fuel efficiency can be about 1-3 grams CO₂. This is a material difference.

Decision by Cabinet

Conversion approaches, and adoption of WLTP

The International Council on Clean Transportation was commissioned in 2019 to develop a suitable conversion methodology for New Zealand. This was based on converting various testing standards to the world harmonised light vehicle test procedure (WLTP). The conversion metrics will be legislated to ensure a consistent foundation for the emission information that will underpin the Clean Car Standard.

New Zealand will follow other countries in adopting WLTP for vehicles so as to reduce the quantity of vehicles that need to be converted between test cycles over time.

European manufacturers have been required to use the WLTP from 1 September 2019, and Japanese manufacturers from 1 January 2021. In New Zealand, Cabinet has agreed that:

- All vehicles manufactured from 2022 must have their fuel efficiency and CO₂ emission values assessed through a WLTP cycle test, or if not available, by the American Environmental Protection Agency (EPA) test.
- Vehicles manufactured before 2022 can continue to be imported if they are on the older NEDC or JC08 standards. This addresses the used market in the short term.
- Vehicles tested to the outdated Japanese 10/15 test cycle will not be permitted because their emissions data is too variable. Hybrid and electric vehicles, if they are tested to the Japanese 10/15 test cycle will be permitted, because despite their uncertainty over exact emission values, their importation would lead to lowering New Zealand vehicle emissions in an affordable price bracket. Hybrids have been available for a long time; the Toyota Prius for example was first manufactured almost 25 years ago.
- In 2024, the Minister will review what further tightening of standards can be occur subsequently. Specifically, a timetable for restricting vehicles on JC08 and NEDC will be considered.

Euro Emission Standards

Cabinet has agreed to update the Vehicle Exhaust Emissions rule by the end of 2022 with a phased approach on used and new light vehicles to meet the latest Euro 6 and equivalent standards from other markets this decade. New Zealand presently allows Euro 4 used vehicles to be imported (a standard banned 11 years ago in Europe) and Euro 5 for new vehicles (banned 6 years ago in Europe). Europe is now looking to define and implement a Euro 7 standard this decade.

Adopting newer Euro standards this decade would reduce the gap between stated and real-world emissions, reduce nitrous oxide emissions (which are a long-lived, climate change contributing gas), and reduce a variety of emissions that are harmful to human health and the environment.

Using tare weight or gross vehicle mass

Tare weight is a vehicle's unladen weight.

Gross vehicle mass (GVM) is the maximum operating weight of a vehicle as specified by the manufacturer including the vehicle's chassis, body, engine, engine fluids, fuel, accessories, driver, passengers and cargo.

Change sought by industry

The new vehicle sector has said the Standard could be applied using either tare weight or GVM. Whatever metric is used its definition needs to be clear.

VIA has said using GVM is problematic for the used sector. Tare weight is preferred by most.

Decision by Cabinet

Tare weight will be used. It is the only weight that can be verified in New Zealand, and is thus not subject to being gamed.

Exemptions

The discussion document proposed that Defence Force operational vehicles be exempted. Non-road registered vehicles and motorcycles/mopeds would not be included in the coverage of the Standard.

Change sought by industry

The AA also wants classic cars to be exempt. The MIA is supportive of this position provided the definition of 'classic car' is tight.

Decision by Cabinet

The Standard does not apply to the following light vehicles:

- vehicles intended primarily for military operational purposes
- agricultural vehicles/equipment that are primarily driven on farms, such as tractors, harvesters, mowers, toppers, bailers
- special interest vehicles⁵
- vintage vehicles⁶ and veteran vehicles⁷
- scratch built vehicles and modified vehicles certified by the Low Volume Vehicle Technical Association Incorporated.

The rolling 20-year exemption that applies in other Transport Rules, including the Vehicle Exhaust Emissions Rule 2007 and the Frontal Impact Rule 2001 would not apply for the Clean Car Standard. This would mean that it covers all light motor vehicles, other than the exceptions identified above.

⁵ Special interest vehicles are defined in Transport regulation as vehicles with historic value, or vehicles such as classic cars.

⁶ Vintage vehicles are motor vehicles constructed on or after 1 January 1919 and are at least 40 years old on the date that they were registered, reregistered, or licensed.

⁷ Veteran vehicles are motor vehicles constructed before 1 January 1919.