

Proactive Release

This document is proactively released by Te Manatū Waka the Ministry of Transport.

Some information has been withheld on the basis that it would not, if requested under the Official Information Act 1982 (OIA), be released. Where that is the case, the relevant section of the OIA has been noted and no public interest has been identified that would outweigh the reasons for withholding it.

Listed below are the most commonly used grounds from the OIA.

| <u>Section</u> | <u>Description of ground</u> |
|----------------|---|
| 6(a) | as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government |
| 6(b) | as release would be likely to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by <ul style="list-style-type: none"> (i) the Government of any other country or any agency of such a Government; or (ii) any international organisation |
| 6(c) | prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial |
| 9(2)(a) | to protect the privacy of natural persons |
| 9(2)(b)(ii) | to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information |
| 9(2)(ba)(i) | to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public |
| 9(2)(ba)(ii) | to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest |
| 9(2)(f)(ii) | to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility |
| 9(2)(f)(iv) | to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials |
| 9(2)(g)(i) | to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty |
| 9(2)(h) | to maintain legal professional privilege |
| 9(2)(i) | to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities |
| 9(2)(j) | to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) |



15 May 2024

OC240274

Hon Simeon Brown
Minister of Transport

Action required by:
Friday, 31 May 2024

OUTCOME OF THE REVIEW OF THE CLEAN CAR IMPORTER STANDARD

Purpose

To seek your approval of changes to the Clean Car Importer Standard (the Standard) following its review.

Key points

- The review has concluded that, apart from the 2025 target for passenger vehicles, the 2025–2027 targets are too stringent. If unchanged, these targets are not likely to be achieved, and the Standard’s expected reductions in motoring costs and CO2 emissions will not be realised. Instead, vehicle prices are likely to rise as importers pass on the charges for not meeting the targets. Vehicle supply could also be reduced as importers will likely be unable to source sufficient volumes of affordable low emission vehicles.
- We recommend easing the targets by aligning them with the targets in the CO2 emission standard currently before the Australian Parliament. This would move New Zealand from having targets that lead globally, to ones that follow the leading jurisdictions.
- Officials consider that the proposed targets to 2029 will secure reductions in vehicle CO2 emissions at a level of ambition close to that of the lead jurisdictions, while still being achievable for the vehicle industry and protecting vehicle availability and affordability for New Zealand consumers.
- We also propose to move away from weight-adjusted targets. However, there is a difference in view as to when weight-adjusting should stop for passenger vehicles with used-importers favouring 2025 and new vehicle distributors 2029. The proposal we recommend ties the decision to when there is no longer a material linear relationship between vehicle weight and CO2 emissions.
- To support achievement of the proposed targets we also recommend adding more flexibility into the use of emission credits and payment of charges. Our proposed changes will effectively create more time for vehicle importers to avoid the payment of charges by using past and future emission credits, which are earned through the

over-achievement of targets. This will better ensure vehicle affordability is maintained and the mix of vehicles imported meets the needs of New Zealanders.

Recommendations

We recommend you:

- 1 **agree** that targets be set for the period 2025–2029 and that the annual targets align with Australia’s from 2027 for passenger vehicles and from 2026 for commercial vehicles to give the following targets: Yes / No

| Year | Passenger vehicles (cars, SUVs) (grams CO2/km) | Commercial vehicles (vans, utes, light trucks) (grams CO2/km) |
|------|---|--|
| 2025 | 112.6 (no change) | 223 |
| 2026 | 108 | 207 |
| 2027 | 103 | 175 |
| 2028 | 76 | 144 |
| 2029 | 65 | 131 |

- 2 **note** that the above targets may require subsequent amendment if the Australian Parliament makes significant changes to the draft targets it is currently considering
- 3 **agree** that given the uncertainties involved in setting targets that Cabinet’s endorsement be sought for the targets’ achievability being reviewed every two years, with the next review reported to the Cabinet Economic Policy Committee by 30 June 2026 Yes / No

Technical changes

- 4 **agree** that targets stop being weight-adjusted when there is no material linear relationship between vehicle weight and CO2 emissions, noting that for passenger vehicles this could be in 2027 on the basis of 2025 vehicle registration data Yes / No
- 5 **agree** that because 2023 was atypical for sales of low-emission vehicles, that the weight-adjusting formula for passenger vehicles for 2025 and 2026 be amended so that: Yes / No
- registrations for 2021 and 2022, rather than 2023, are used to determine the slope of the weight-adjusting formula for 2025
 - the slope for 2026 is determined by reducing the 2025 slope by 25%
- 6 **note** that the current minimum and maximum tare weights used in the weight-adjusting formula for commercial vehicles are too low, and will inadvertently be increasing the stringency of the targets
- 7 **agree** that from 2025 the current minimum and maximum tare weights for light commercial vehicles, be increased from 1,200 kilograms to 1,600 kilograms, and from 2,200 kilograms to 2,300 kilograms respectively Yes / No
- 8 **agree** that disability vehicles be excluded from the Standard from 1 January 2025 Yes / No
- 9 **note** that the current definition of disability vehicle risks fraudulent exemptions and officials will improve it as part of the amendments made to the Land Transport (Clean Vehicle Standard) Regulations 2022 later this year

10 **agree** to enhance the Standard’s flexibility measures by:

- extending the lifespan of emission credits (existing and future) from three to four years
- extending the use of borrowing of future target over-achievement (payment obligation deferral) beyond 2025
- removing the legislative restriction on credit transfers between the new and used-import sectors, with a 2026 start date for transfers

Yes / No

11 **note** that the enhanced flexibility measures would be able to be implemented during 2026, however, we will provide further advice by 30 June 2024 on the implementation issues, cost and 2026 start date for implementing credit transfers

12 **note** that if you agree to the above recommendations, changes will be required to primary and secondary legislation s 9(2)(ba)(ii), s 9(2)(f)(iv)

13 **note** that once you have taken decisions on the above recommendations, we will provide a draft Cabinet paper and regulatory impact statement with a view to securing Cabinet decisions by 31 July 2024.

Siobhan Routledge
Acting Deputy Chief Executive Policy

..... / /

Hon Simeon Brown
Minister of Transport

..... / /

- Minister’s office to complete:**
- Approved
 - Declined
 - Seen by Minister
 - Not seen by Minister
 - Overtaken by events

Comments

Contacts

| Name | Telephone | First contact |
|--|--------------------------|---------------|
| Siobhan Routledge, Acting Deputy Chief Executive Policy | <small>s 9(2)(a)</small> | |
| Natasha Rave, Acting Manager, Environment | | ✓ |
| Gayelene Wright, Principal Advisor, Environment | | |

OUTCOME OF THE REVIEW OF THE CLEAN CAR IMPORTER STANDARD

We have completed the review of the Clean Car Importer Standard

- 1 The Government has retained the Clean Car Importer Standard (the Standard) to accelerate the supply of low and zero emission vehicles. However, to better realise the benefit of the Standard in reducing CO2 emissions and motoring costs, it has committed to:
 - 1.1 a review to ensure its annual CO2 targets are achievable
 - 1.2 exempting disability vehicles to ensure people can access them without facing increased costs.
- 2 On your direction we commenced a review of the Standard in January 2024 and, after engagement with the vehicle industry, sought your agreement to the review's scope, timeline and approach [OC240160 refers]. The scope you agreed expanded the review beyond the targets to include enhancements to the Standard's flexibility measures.
- 3 This briefing reports on the review's conclusions and proposes changes. The proposals have been informed by discussions with the Motor Industry Association (MIA), the Imported Motor Vehicle Industry Association (VIA), the Motor Trade Association (MTA) and the New Zealand Automobile Association (AA).
- 4 The review has fulfilled the requirements set out in Section 175A of the Land Transport Act 1998 for conducting a review of the Standard's annual CO2 targets for 2025–2027.

Part A – Context and key proposals

How the Standard works

- 5 The Standard reduces the average CO2 emissions of vehicles that are imported. It does this through its annual CO2 targets that progressively lower. Vehicles importers are required to meet the targets each year, on average, across the vehicles they import.
- 6 Suppliers can import any mix of vehicles they choose. However, to meet the annual CO2 target they need to ensure they import sufficient volumes of vehicles with emissions below their targets to offset the emissions of vehicles that exceed their targets.
- 7 Financial charges apply where targets are not met, while emission credits are earned for the overachievement of targets. There is a level of flexibility in the application of charges and credits. The credits can be used to offset current and the next two years' charges. They can also be transferred to other importers who have not achieved their targets.

- 8 When applied to the vehicles of individual importers, the annual CO2 targets are weight-adjusted so heavier vehicles attract higher targets. This is done to avoid penalising importers that supply a high proportion of heavier than average vehicles. This recognises that these vehicles tend to have higher emissions because when they are driven they use more fuel.
- 9 Weight-adjustment is a temporary setting because as the share of EVs and hybrids being imported reaches a certain level, there will be no linear relationship between vehicle weight and CO2 emissions. For example, a large 2023 hybrid Toyota RAV4 produces 121 grams of CO2/km. This is lower than small used petrol Suzuki Swifts imported in 2023 that produce 134 grams CO2/km.
- 10 When the point is reached where there is no linear relationship between vehicle weight and CO2 emissions there will be no rationale to weight-adjust the targets.

Setting the targets requires a balance between a number of competing outcomes

- 11 Officials considered four outcomes when developing proposed changes to the Standard's CO2 targets. The targets should be:
- strong enough to deliver reductions in vehicle CO2 emissions faster than business as usual
 - measured to ensure the vehicle market supplies New Zealand consumers with a sufficient volume and range of affordable vehicles that meet their needs
 - achievable by vehicle importers
 - effective over time causing vehicle importers to continuously source better vehicles with lower CO2 emissions and running costs.

Apart from the 2025 target for passenger vehicles all the other 2025–2027 targets are too stringent

- 12 The review has concluded that apart from the 2025 target for passenger vehicles (cars and SUVs), all the other targets are too stringent. If unchanged these targets will likely reduce vehicle supply, raise prices and slow-down the uptake of low and zero emission vehicles. This conclusion is based on the following factors.

12.1 It is unlikely that the current targets are achievable for our vehicle importers as:

- the 2026 and 2027 targets for commercial vehicles (vans, utes and light trucks) are the most stringent globally¹. The 2027 target for passenger vehicles is the second most stringent behind the European Union. As our vehicle market is very small, overseas vehicle manufacturers are highly unlikely to match our globally leading targets with the top priority for the supply of low and zero emission vehicles. New vehicle distributors face significant risks in not being able to secure a sufficient supply at affordable prices to achieve the targets.

¹ The stringency of the 2026 target is tied with California in being the most stringent. The 2027 target is ahead of California's.

- low and zero emissions utes are needed to achieve the targets for commercial vehicles. However, the introduction of these utes to our market has been much slower than was anticipated when the targets were set. The introduction of hybrid utes is only starting this year, and the one EV ute model that had been introduced was subsequently withdrawn last year. Consequently, the 2023 target for commercial vehicles was not achieved and the 2024 target is not expected to be achieved
- roughly half of vehicle imports each year are used vehicles. These vehicles must meet the same targets as new vehicles despite having older technology. The VIA has stated that with the average mix of used-imports with price points acceptable to New Zealand consumers, importers will not achieve the 2026 and 2027 targets

12.2 The current targets can be expected to increase vehicle prices as:

- the MIA has stated that if the targets and the weight adjustment formula for 2025 and 2026 are not changed, 97.5% of new vehicles can be expected to attract charges in 2026. Around a third of the charges will be able to be covered by emission credits, however, the remaining estimated charges of \$319.37 million will flow through into vehicle prices. This equates to an estimated per vehicle charge of \$2,272. In 2027, 97.6% of new vehicles are forecast to attract charges of \$800.6 million which equates to an estimated per vehicle charge of \$5,549
- the VIA does not expect affordable used EVs priced under \$30,000 to be available in significant volume until 2030.

12.3 The current targets can be expected to reduce vehicle supply as:

- globally the supply of used-EVs is significantly constrained. The VIA expect that over 2025–2027 at best 4,000–6,000 battery EVs could be sourced from Japan, this would only be around 5% of used-imports
- the VIA considers that sourcing used-hybrid vehicles that meet the 2026 and 2027 target to compensate for the lack of EVs, will be virtually impossible
- the MIA has stated that the supply of well-equipped vehicles will decline. To manage the extra cost of manufacturing vehicles that meet the CO2 targets, manufacturers are likely to make vehicle specification changes that remove vehicle content, such as on-board technology and safety features.

New Zealand will benefit from easing the current targets and doing so by aligning with Australia

- 13 We propose that the targets be eased by aligning them with the targets in Australia's CO2 emission standard. Legislation for this standard is currently before the

Australian Parliament², and envisages the standard being in effect from 1 January 2025 with targets set out to 2029.

- 14 For new vehicles, alignment with Australia is beneficial because it would facilitate vehicle manufacturers supplying our market as part of Australia. This would afford our small market a higher priority for supply than it would otherwise have. For used-imports, alignment pushes out the current targets by 2–3 years. This allows more time for the volume of EVs available to import from Japan to increase. This will help overcome the current constrained supply of EVs our used-importers are facing.
- 15 The proposed targets and the percentage reduction in average emissions they require are in the table below. The proposal sets targets to 2029 to be consistent with Australia and to increase certainty for the vehicle industry.
- 16 In our view the proposed targets hit the “sweet spot” in being sufficiently stringent to maximise reductions in CO2 emissions and motoring costs, while still enabling a continuous supply of affordable low-emission vehicles for consumers. Industry has confirmed that they consider the targets stringent but achievable.

Vehicle prices rises are unlikely with these proposals

- 17 Importantly, the proposed targets are unlikely to raise vehicle prices for consumers. The MIA’s submission confirms that the targets are achievable across the industry and consistent with no charges being imposed to flow through into increased prices. The VIA’s submission estimates that with the current 2026 target, \$1,500–\$2,000 would be added to the average imported used-hybrid. The proposed targets avoid this price increase for consumers.

| | Passenger vehicles (cars and SUVs) | | | | Commercial vehicles (vans, utes, light trucks) | | | |
|------|------------------------------------|-----------|----------------------------|-----------|--|-----------|----------------------------|-----------|
| | Current Target (g CO2/km) | Reduction | Proposed Target (g CO2/km) | Reduction | Current Target (g CO2/km) | Reduction | Proposed Target (g CO2/km) | Reduction |
| 2025 | 112.6 | 16% | No change 112.6 | 16% | 155 | 23% | 223 | 7% |
| 2026 | 84.5 | 25% | 108 | 4% | 116.3 | 25% | 207 | 7% |
| 2027 | 63.3 | 25% | 103 | 5% | 87.2 | 25% | 175 | 15% |
| 2028 | Not set | - | 76 | 26% | Not set | - | 144 | 18% |
| 2029 | Not set | - | 65 | 14% | Not set | - | 131 | 9% |

- 18 The proposal adopts the Australian passenger vehicle targets from 2027 given New Zealand has made stronger progress than Australia in reducing vehicle CO2 emissions³. Before this, the 2025 target would not change but the 2026 target would be eased from 84.5 grams to 108 grams CO2/km⁴. These changes effectively push-out the current passenger targets by around two years.

² https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/r7182_first-reps/toc_pdf/24048b01.pdf;fileType=application%2Fpdf (see page 17)

³ The average CO2 intensity for new passenger vehicles in Australia is around 180 grams CO2/km (3p-WLTP). This compares with 121.1 grams for New Zealand.

⁴ 108 grams is the mid-point between the 2025 target of 112.6 grams and the 2027 Australian target of 103 grams.

- 19 For light commercial vehicles, the proposed targets adopt the Australian targets from 2026. The 2025 target is eased to 223 grams. These changes push out the current targets by more than three years. The greater degree of change to the commercial targets reflects that the current ones are especially stringent.

Rather than leading, the proposed targets follow the leading jurisdictions

- 20 For passenger vehicles, our proposed targets would trail the EU, the global leader by around 4- years⁵. For commercial vehicles, by 2029 the face-value of the targets would trail the USA, the global leader with a fleet most similar to ours, by around 5-years. However, the actual stringency of the targets would trail by 2 to 3-years⁶ as the USA operates its Standard with technology credits that weaken its targets (see Annex 1).
- 21 However, the level of ambition inherent in our proposed targets remains high. As can be seen in Annex 1 we would remain ahead of some key jurisdictions such as South Korea and Japan.

The targets will be uncertain until the Australian legislation is passed

- 22 The Australian targets are currently before the Australian Parliament⁷. Australian officials consider that they will be passed by August 2024. Until then our proposed target levels will be uncertain. This uncertainty could be managed by subsequently amending the targets if the Australian Parliament makes significant changes to the Australian targets.

We recommend reviewing the targets every two-years

- 23 Given the uncertainties involved in setting targets, we propose their achievability be reviewed every two years. The reviews would ideally be formalised through Cabinet agreement with the next review being reported back to the Cabinet Economic Policy Committee by 30 June 2026.

Part B – Technical recommendations

We propose targets stop being weight-adjusted once there is no linear relationship between vehicle weight and CO2 emissions

- 24 As outlined in paragraph 9, the weight-adjustment of targets is a temporary setting. As the share of EVs and hybrids being imported increases, there will eventually be no linear relationship between vehicle weight and CO2 emissions and no rationale to weight-adjust the targets.
- 25 We came close to this point in 2023 for passenger vehicles. When we did a regression of the vehicle registrations we found only a very weak relationship between vehicle weight and CO2 emissions. This weak relationship was caused by

⁵ This is based on the trajectory implied by the 2030 EU target of 28 grams CO2/km. The EU target is expressed in 4p-WLTP and is 49 grams CO2/km. Converted to 3p-WLTP, the assessment applicable in New Zealand, this is 28 grams.

⁶ This reflects the United States Environmental Protection Agency modelling see page 215 of the Rule published at this address: <https://www.epa.gov/regulations-emissions-vehicles-and-engines/final-rule-multi-pollutant-emissions-standards-model>

⁷ https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/r7182_first_reps/toc_pdf/24048b01.pdf;fileType=application%2Fpdf (see page 17)

the share of internal combustion vehicles in vehicle imports falling to 46.1% for new vehicles and 41.6% for used-imports.

- 26 It is critical to stop weight-adjusting targets when there is no linear relationship to prevent heavier vehicles being advantaged with easier targets. This advantage would distort the vehicle market. Specifically, importers with a market offering with relatively more heavier vehicles than lighter ones would be able to import a greater number of high emitting vehicles without facing charges. They would also be able to earn more emission credits for meeting their targets than their competitors. These credits can be used to offset future target under-achievement, or be transferred to other importers for financial gain.
- 27 Used vehicle importers would be more disadvantaged than the new vehicle sector if weight-adjustment continued longer than it should. This is because used importers tend to supply vehicles that are lighter than the average vehicle entering the fleet.
- 28 Based on our 2023 regression results we consulted the industry on the option to have uniform targets (ie to stop weight adjustment) for passenger vehicles from 2025. The VIA, representing used importers, support this proposal. However, the MIA raised concern that 2023 is an atypical year because the decision to end the Clean Car Discount brought forward and increased the sale of EVs and hybrids. Instead, the MIA favours a 4-year transition to uniform targets for passenger vehicles from 2029.
- 29 We agree with the MIA that 2023 vehicle registrations are atypical and should not be used to decide to stop weight-adjustment. However, we consider it likely that a 4-year transition will be too long given how quickly the linear relationship between vehicle weight and CO2 emissions is likely to diminish once sales of hybrids and EVs recover.
- 30 To minimise the risk of weight-adjustment continuing longer than it should, we propose that targets stop being weight-adjusted when there is no material linear relationship between vehicle weight and CO2 emissions. For passenger vehicles this could be in 2027 on the basis of 2025 vehicle registration data. For commercial vehicles this will be a number of years away as there are no new EV utes available on our market and hybrid utes are only being introduced this year.

The weight-adjusting formula for 2025 and 2026 urgently needs amendment

- 31 As 2023 passenger vehicle registrations are atypical, urgent changes are required to prevent this data being used in the weight-adjusting formula for 2025 and 2026. These changes are to:
- 31.1 use 2021 and 2022 vehicle registrations to determine the slope of the weight-adjusting formula for 2025. These registrations have a slope of 0.0457 (the slope expresses the relationship between CO2 emissions and vehicle weight). Without this change the slope of 0.0036 from 2023 vehicle registrations will apply. This will cause very close to uniform targets to be in effect, which will significantly disadvantage new vehicle distributors
 - 31.2 set the slope for 2026 by reducing the 2025 slope by 25% to give a slope of 0.0343. A 25% reduction was agreed as being acceptable to both new and used vehicle importers.

We propose increasing the minimum and maximum weights that limit weight-adjusting of the targets for commercial vehicles

32 In adjusting the targets, minimum and maximum weights apply to avoid small vehicles facing too stringent targets and heavier vehicles too weak ones. For commercial vehicles the current minimum and maximum weights are too low and inadvertently increase the stringency of the targets. To address this, we propose increasing from 2025 the:

32.1 minimum tare weight from 1,200 to 1,600 kilograms. All vehicles up to this minimum weight would attract the same target as a 1,600 kilogram vehicle

32.2 maximum tare weight from 2,200 to 2,300 kilograms. All vehicles over this maximum weight would attract the same target as a 2,300 kilogram vehicle.

Achievement of the targets would be made more likely by enhancements to the Standard's flexibility measures

33 The Standard has flexibility measures to make it easier for importers to comply. These measures work by allowing importers to use their own, or other importers', over-achievement of targets to offset underachievement. By creating this flexibility stronger targets can be set.

34 To support the proposed targets, we recommend enhancing the Standard's flexibility measures by:

34.1 extending the lifespan of CO₂ emission credits (existing and future) from three to four years. Credits are earned on any vehicle that is below the relevant target. Extending their lifespan to four years will increase the credit buffer importers have to cover any future target underachievement

34.2 extending the use of borrowing (this is called "payment obligation deferral") beyond 2025. With borrowing, importers who do not achieve their annual target can make up the under-achievement the following year by over-achieving the subsequent year's target by an equal amount. This flexibility only applies to importers that comply on an annual basis (some importers comply through out the year on a vehicle-by-vehicle basis). Currently, this provision is only available until 2025

34.3 removing the current restriction⁸ on credit transfers between the new and used-import sectors with a 2026 start date for transfers. This would take forward the VIA's proposal to enable credit transfers at an "exchange rate" of two for one (ie a credit earned on a new vehicle would be worth twice as much as one earned on a used-import).

35 NZTA has advised that it could implement these enhancements during 2026.

s 9(2)(f)(iv)

⁸ Section 180(3) of the Land Transport Act provides that "No transfer may be made... between a carbon dioxide account relating to new vehicles and a carbon dioxide account relating to used vehicles."

s 9(2)(f)(iv)

- 36 We will provide further advice by 30 June 2024 on the implementation issues, cost and 2026 start date for implementing credit transfers.

Exempting disability vehicles from the Standard

- 37 To progress the Government's commitment, we recommend disability vehicles be excluded from the Standard. This change would be progressed to be in effect from 1 January 2025. Officials will also improve the definition of disability vehicle in the regulations because the current one risks fraudulent exemptions.

View of the vehicle industry and the AA

- 38 The vehicle industry and the AA largely support the proposals in this paper. However, the MIA's support for the level of the targets is contingent on a 4-year transition to uniform targets.
- 39 The VIA supports the proposed targets. However, it would prefer moving to uniform targets from 2025 for both passenger and commercial vehicles. In its view uniform targets would encourage vehicle importers to increase the supply of smaller vehicles. The VIA is concerned that the review in 2026 of the decision to stop weight-adjusting passenger targets from 2027 will be "another opportunity to decrease the ambition of the targets. We recommend that it only include options that reduce the length of the transition and increase CO2 reductions".

The proposed targets will increase the certainty of the Standard's projected contribution to reducing gross CO2 emissions but not impact net emissions

- 40 In our view the proposed targets will not impact the ability for the first emissions budget (or subsequent ones) to be met. This is because:
- 40.1 transport emissions are covered by the ETS, therefore changing the Standard's targets might change how or where emissions reductions occur from a gross perspective, but not from a net perspective
- 40.2 the current targets would be unachievable for industry to meet and will not deliver the gross emissions reduction in the transport sector that we intended to achieve from the Standard. With these targets more importers will likely pay charges, rather than increase the supply of lower emissions vehicles and deliver lower gross emissions in the transport sector. Moreover, the flow-through of the charges into higher vehicle prices will encourage consumers to hold onto their existing higher emitting vehicles for longer. So the counterfactual is that we will not realise gross emission reduction potential we expected from the Standard.
- 41 We will soon have modelling to estimate the gross impacts of the proposed targets on gross emissions in the transport sector. We have previously estimated that the Standard, with its current targets and settings, will reduce gross emissions by 3–5 Mt for the period of 2022 to 2050. Our preliminary modelling suggests that the proposed targets and settings, would reduce the estimated emission reduction by about 10%

(ie 300–500 kilotonnes) for the same time period. This estimate may change and cannot be finalised until June 2024 when the government-wide assumptions, such as the carbon price, will have been updated.

- 42 Overall, the key emissions improvement we achieve with the proposed targets is to increase the certainty of the projected level of gross CO2 reductions attributable to the Standard. The current development of the second emissions reduction plan is the opportunity to ensure policy settings support meeting our future emissions budgets.

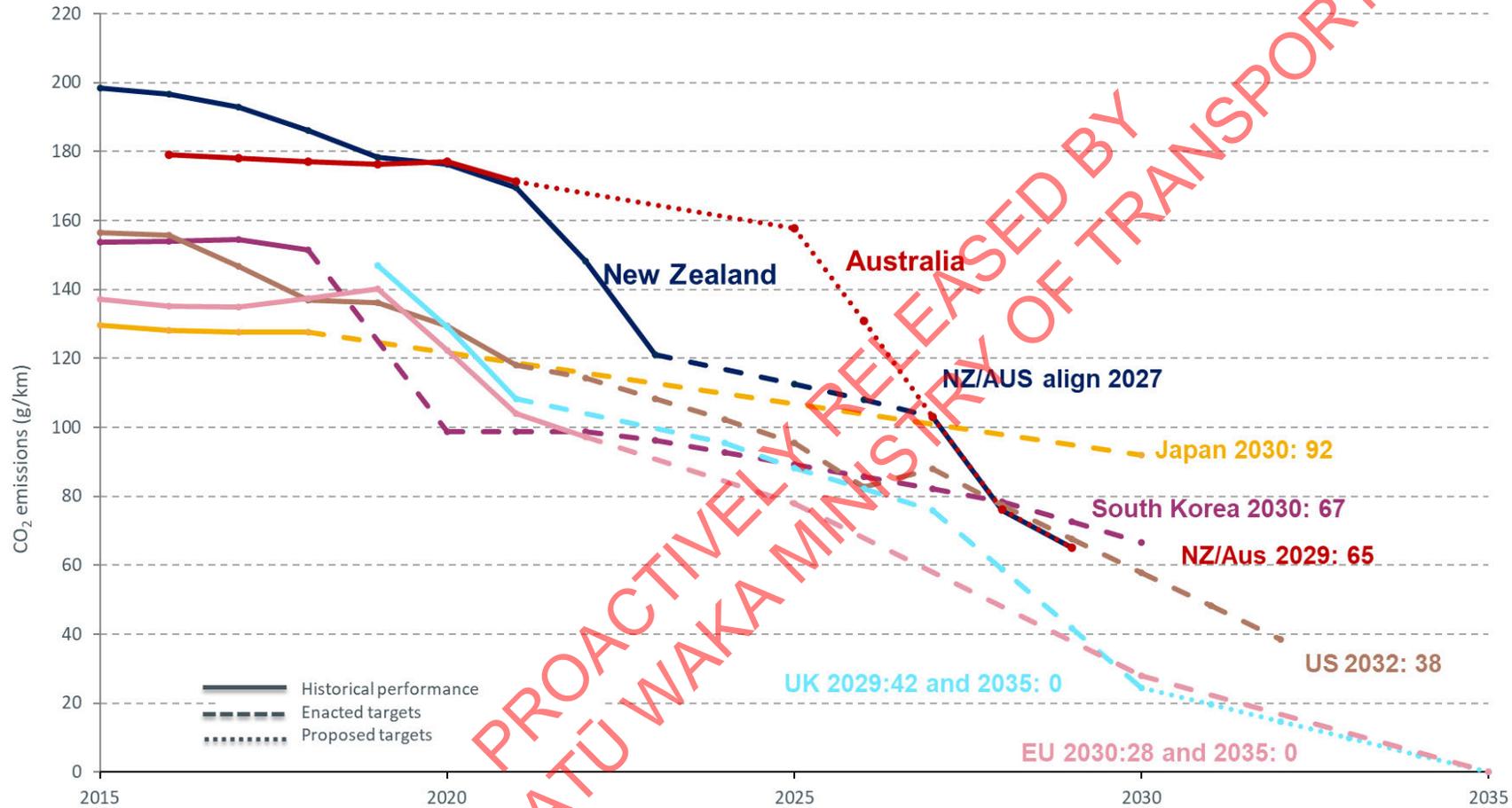
Next steps

- 43 Once you have decided on the recommendations in this paper, we will prepare a draft Cabinet paper and regulatory impact statement for your consideration. The key milestone we are working to is to have Cabinet policy decisions by 31 July 2024.
- 44 Following policy decisions, the timeline to secure legislative changes to give effect to our proposals is set out in the table below.
- 45 NZTA will have responsibility for implementing the system and business process changes to give effect to the proposals in this paper. NZTA has been consulted and its concerns have been noted.

Timeline to secure the legislative changes

| | |
|----------------------|--|
| August | <ul style="list-style-type: none"> Parliamentary Counsel Office drafts legislation by 12 August 2024 <p>s 9(2)(ba)(ii), s 9(2)(f)(iv)</p> |
| September October | |
| November | |
| December | |

ANNEX 1 – New Zealand’s proposed passenger vehicle CO2 targets compared to selected jurisdictions (normalised to 3p-WLTP the test cycle used to assess the CO2 emissions of vehicles supplied to New Zealand)

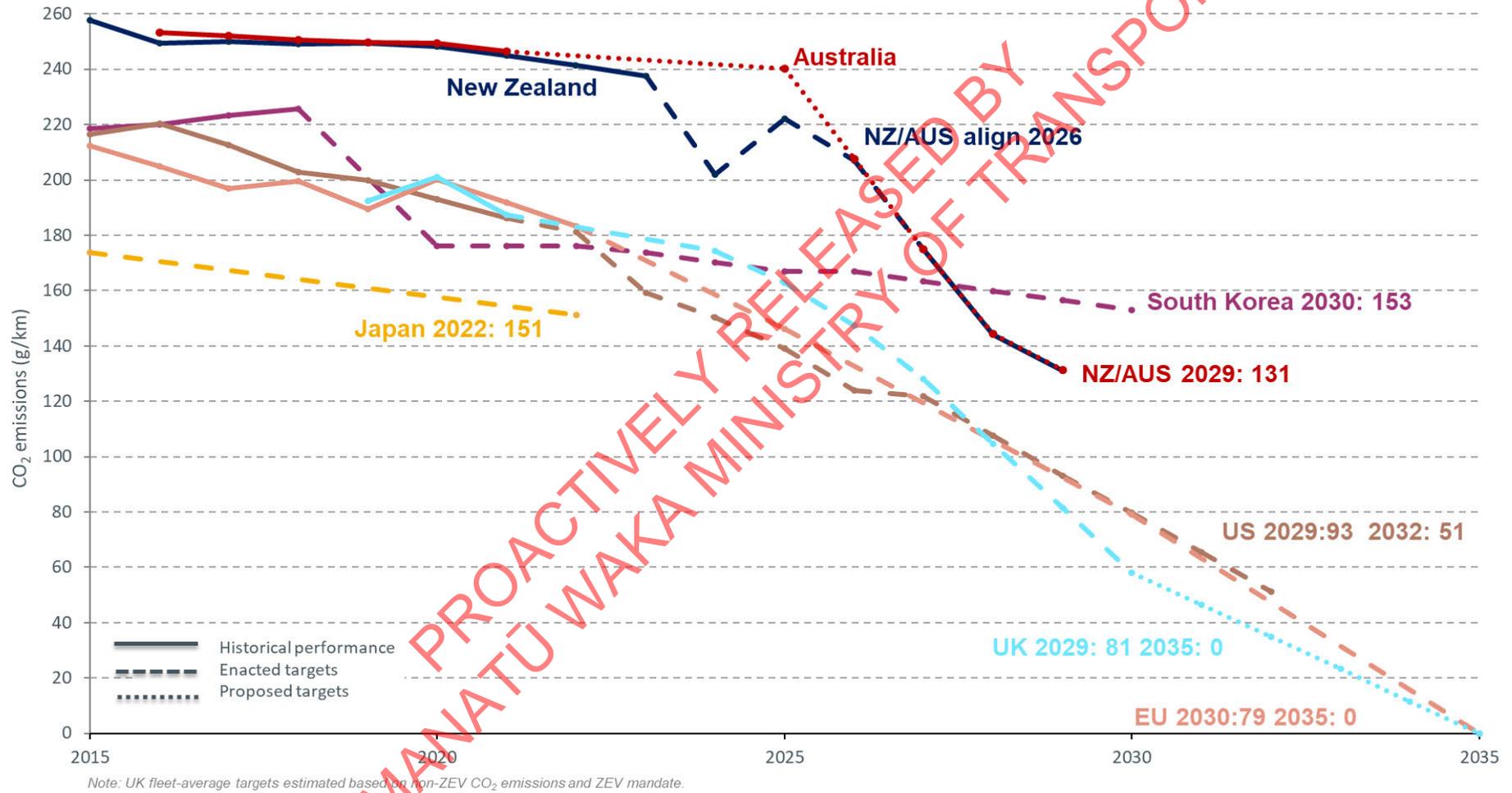


Note: UK fleet-average targets estimated based on non-ZEV CO2 emissions and ZEV mandate.

<https://theicct.org/pv-fuel-economy/>
Updated April 2024

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTĪRY OF TRANSPORT

New Zealand's proposed commercial vehicle CO2 targets compared to selected jurisdictions (normalised to 3p-WLTP the test cycle used to assess the CO2 emissions of vehicles supplied to New Zealand)



<https://theicct.org/pv-fuel-economy/>
Updated April 2024



24 May 2024

OC240550

Hon Simeon Brown
Minister of Transport

Action required by:
Thursday, 30 May 2024

CABINET PAPER FOR THE REVIEW OF THE CLEAN CAR IMPORTER STANDARD

Purpose

To receive your comment on the draft Cabinet paper that seeks approval of changes to the Clean Car Importer Standard (the Standard) following its review.

Recommendations

We recommend you:

- | | | |
|---|---|----------|
| 1 | consider the attached draft Cabinet paper and inform officials of any changes you would like made | Yes / No |
| 2 | note that the Cabinet paper is intended to be lodged by 20 June 2024 to enable it to be considered by the Cabinet Economic Development Committee on 26 June 2024 | |
| 3 | note that our timeline assumes that Ministerial and cross-party consultation will occur at the same time as departmental consultation, which is over 6 June –13 June 2024. | |



Siobhan Routledge
Acting Deputy Chief Executive Policy
24 / May / 2024

Hon Simeon Brown
Minister of Transport
..... / /

- Minister's office to complete:
- | | |
|--|---|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Seen by Minister | <input type="checkbox"/> Not seen by Minister |
| <input type="checkbox"/> Overtaken by events | |

Comments

Contacts

| Name | Telephone | First contact |
|--|-----------|---------------|
| Siobhan Routledge, Acting Deputy Chief Executive Policy | s 9(2)(a) | |
| Natasha Rave, Acting Manager, Environment | | |
| Gayelene Wright, Principal Advisor, Environment | | ✓ |

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

CABINET PAPER FOR THE REVIEW OF THE CLEAN CAR IMPORTER STANDARD

The attached draft Cabinet paper takes forward your decisions on the Standard

- 1 The attached draft Cabinet paper seeks Cabinet's endorsement of the decisions you have taken on the review of the Standard. The key proposals are to:
 - set achievable targets for 2025–29 aligned with Australia's
 - add more flexibility into the use of the Standard's emission credits and charges to support achievement of the targets
 - exempt disability vehicles from the Standard.
- 2 As you directed at the meeting with officials on 20 May 2024, the cabinet paper seeks approval for disability vehicles to be exempted from the Standard as soon as the amending regulation is made. As well, the graphs showing how our targets compare internationally have been amended to include both the current and proposed targets.
- 3 The paper has an item that is still being finalised. We are awaiting confirmation from the Ministry for the Environment as to whether they consider our estimate of the climate implications to be a reasonable assessment.

Next steps

- 4 Once we have actioned the changes you would like made to the attached draft Cabinet paper, we will commence departmental consultation. The paper is intended to be lodged with the Cabinet Office on 20 June 2024 for consideration by the Cabinet Economic Development Committee on 26 June 2024. This timeline assumes that the paper undergoes Ministerial and cross-party consultation over 6 June –13 June 2024.
- 5 Following Cabinet approval on 1 July 2024, the timeline to secure the legislation changes to give effect to the proposals is set out on the following page.
- 6 Our timeline assumes that the Land Transport (Clean Vehicle Standard) Amendment Bill, which will be introduced and passed as part of the Budget night legislation, has been enacted. It is also contingent on the Parliamentary Counsel Office's ability to draft the legislation by 22 July 2024.

Timeline to secure the legislative changes

| | |
|-----------|---|
| July | <ul style="list-style-type: none">• Ministerial media release announcing the new targets and settings – by 5 July 2024• PCO drafts legislation by 22 July 2024 |
| August | <p>s 9(2)(ba)(ii), s 9(2)(f)(iv)</p>  |
| September | |
| November | |
| December | |

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

In Confidence

Office of the Minister of Transport
Cabinet Business Committee

OUTCOME OF THE REVIEW OF THE CLEAN VEHICLE STANDARD

Proposal

- 1 This paper seeks agreement to changes to the Clean Vehicle Standard (the Standard) to:
 - 1.1 set achievable targets for 2025–29 aligned with Australia's
 - 1.2 add more flexibility into the use of the Standard's emission credits and charges to support achievement of the targets
 - 1.3 exempt disability vehicles from the Standard.

Relation to Government priorities

- 2 The Government is committed to meeting New Zealand's 2050 net zero climate goal. This is one of the nine Government Targets. Switching the transport and energy sectors to clean energy could deliver almost a third of the total emission reductions New Zealand needs to reach net zero by 2050.
- 3 Retention of the Standard will support us achieve our climate goal by accelerating the supply of low and zero emission vehicles. However, to better realise this potential, and to save motoring costs for New Zealanders, the Government committed to:
 - a review to ensure its annual CO2 targets are achievable
 - exempt disability vehicles from the Standard to ensure people can access them without facing increased costs.

Executive Summary

- 4 The Standard reduces the average CO2 emissions of vehicles that are imported. It does this through its annual CO2 targets that are progressively lowered. Vehicles importers are required to meet the targets each year, on average, across the vehicles they import.
- 5 To benefit New Zealand, the Standard's targets need to be strong enough to deliver reductions in vehicle CO2 emissions and motoring costs at a faster rate than business as usual. For the vehicle industry, the Standard needs to be achievable and for consumers, it should protect vehicle availability, affordability and choice.
- 6 The review of the Standard's CO2 targets has concluded that apart from the 2025 target for passenger vehicles, the 2025–2027 targets are too stringent, placing New Zealand as a global leader, and are unlikely to be achieved. If unchanged, the Standard's expected reductions in motoring costs and CO2 emissions will not be

realised. Instead, vehicle prices are likely to rise as importers pass on the charges for not meeting the targets. Industry feedback has indicated that this could be up to \$8,000 per vehicle. Vehicle supply could also be reduced as importers will likely be unable to source sufficient volumes of affordable low emission vehicles.

7 To prevent these outcomes, I propose resetting the targets by aligning them with Australia's. This will move New Zealand from being a global leading outlier to being a close follower. Aligning with Australia will deliver more certainty for the vehicle industry and:

- 7.1 facilitate new vehicle manufacturers supplying our market as part of Australia – affording us a higher supply priority than we would otherwise have
- 7.2 provide more time for the volume of used EVs available to import from Japan to increase, overcoming our current challenge of constrained supply faced by used vehicle importers.

8 Alignment with Australia will see targets secure reductions in vehicle CO2 emissions at a level of ambition close to that of the lead jurisdictions, while still being achievable for the vehicle industry and protecting vehicle availability, choice and affordability for consumers.

9 I am also seeking agreement to make system and technical changes:

System proposals

- 9.1 have two-yearly reviews of the targets' achievability, with the next review being reported back to the Cabinet Economic Policy Committee by 30 June 2026
- 9.2 exempt disability vehicles from the Standard to give effect to our manifesto commitment
- 9.3 add more flexibility into the use of the Standard's emission credits and charges to support achievement of the targets.

Technical proposals

- 9.4 stop adjusting the annual targets by vehicle weight once there is no longer a material linear relationship between vehicle weight and CO2 emissions. This is expected to be in 2027, for passenger vehicles, unless 2025 data shows there is still a material relationship
- 9.5 change the weight-adjusting formula for 2025 and 2026 so 2023 vehicle registrations are not used to determine the amount of adjustment. This is because these registrations are atypical due to the cessation of the Clean Car Discount bringing forward and increasing the sale of EVs and hybrids.

10 The proposals in this paper require changes to the Land Transport Act 1998 (the Act) and the Land Transport (Clean Vehicle Standard) Regulations 2022 (the Regulations). To secure these changes I intend, s 9(2)(ba)(ii), s 9(2)(f)(iv)

The changes to the Act will be secured

s 9(2)(ba)(ii), s 9(2)(f)(iv)

11 The following proposals will require amendment to the Land Transport (Clean Vehicle Standard) Regulations 2022:

11.1 Changing the 2025-2029 CO2 targets to align with Australia (this requires the Land Transport (Clean Vehicle) Amendment Bill 2024 to have been enacted).

11.2 Exempting disability vehicles from the Standard.

11.3 Amending the 2025 and 2026 weight adjustment formula so 2023 vehicle registrations are not used to determine the amount of adjustment.

11.4 Increasing the minimum and maximum weights that limit weight-adjusting of the targets for commercial vehicles.

12 The remaining proposals discussed in this paper will require amendment to the Land Transport Act 1998 s 9(2)(ba)(ii), s 9(2)(f)(iv)

12.1 Enabling the Standard to be more flexible by extending the lifespan of

emissions credits from three to four years, enabling emission credit trading between new and used vehicle importers, and extending the use of forward-borrowing beyond 2025.

12.2 Introducing an empowering provision to stop the weight-adjustment of annual CO2 targets.

Background

13 Our manifesto commitments include reviewing the achievability of the 2025–2027 targets. A review is also required by section 175A of the Land Transport Act (the Act). The Ministry of Transport has completed a review that fulfils both our commitment and the requirements of section 175A.

14 To ensure our decisions on the review can be actioned quickly, I intend to progress the Land Transport (Clean Vehicle) Amendment Bill 2024 once Parliament resumes on 25 June 2024. This Bill enables the targets for 2025–2027 to be set by regulation, rather than requiring a change to the Act. The Bill has a commencement date of 1 July 2024.

How the Standard works

15 The Standard reduces CO2 emissions and motoring costs through its annual CO2 targets that progressively lower. Vehicles importers are required to meet the targets each year, on average, across the vehicles they import.

16 Suppliers can sell any mix of vehicles they choose. However, to meet the annual targets they must sell sufficient volumes of vehicles with emissions below their targets to offset vehicles with emissions above their targets.

- 17 Financial charges apply where targets are not met, while emission credits are earned for the overachievement of targets. Charges and credits are designed to provide flexibility for importers in how and when they meet the targets. Credits can be used to offset current and future years' charges, having a life-span of three years. They can also be transferred to other importers who have not achieved their targets. With prior approval from the New Zealand Transport Agency, the payment of charges can also be deferred into the following year and either paid or covered with credits.
- 18 When applied to the vehicles of individual importers, the annual CO₂ targets are weight-adjusted so heavier vehicles attract higher targets. This avoids penalising importers that supply a high proportion of heavier than average vehicles. This recognises that these vehicles tend to have higher emissions because when they are driven they use more fuel.
- 19 Weight-adjustment is a temporary setting because as the share of EVs and hybrids being imported reaches a certain level, there will be no linear relationship between vehicle weight and CO₂ emissions. For example, a large 2023 hybrid Toyota RAV4 produces 121 grams of CO₂/km. This is lower than small used petrol Suzuki Swifts imported in 2023 that produce 134 grams CO₂/km.
- 20 When the point is reached where there is no linear relationship between vehicle weight and CO₂ emissions there will be no rationale to weight-adjust the targets.

Key proposals – Resetting the annual CO₂ targets, exempting disability vehicles and providing greater flexibility

Setting the targets requires a balance between a number of competing outcomes

- 21 Officials considered four outcomes when developing proposed changes to the Standard's targets. The targets should be:
- strong enough to deliver reductions in vehicle CO₂ emissions faster than business as usual
 - measured to ensure the vehicle market supplies New Zealand consumers with a sufficient volume and choice of affordable vehicles that meet their needs
 - achievable by vehicle importers
 - effective over time causing vehicle importers to continuously source better vehicles with lower CO₂ emissions and running costs.

Apart from the 2025 target for passenger vehicles all the other 2025–2027 targets are unlikely to be achieved

- 22 The proposals in this paper have been informed by discussions with the Motor Industry Association (MIA), the Imported Motor Vehicle Industry Association (VIA), the Motor Trade Association (MTA) and the New Zealand Automobile Association (AA).
- 23 The review concluded that apart from the 2025 target for passenger vehicles (cars and SUVs), all the other targets are too stringent. If unchanged these targets will likely reduce vehicle supply, raise prices and slow-down the uptake of low and zero emission vehicles. This conclusion is based on the following factors.

23.1 It is unlikely that the current targets are achievable for our vehicle importers as:

- The 2026 and 2027 targets for commercial vehicles (vans, utes and light trucks) are the most stringent globally¹. The 2027 target for passenger vehicles is the second most stringent behind the European Union. Overseas vehicle manufacturers are highly unlikely to match our globally leading targets with the top priority for the supply of low and zero emission vehicles. New vehicle distributors face significant risks in not being able to secure a sufficient supply at affordable prices to achieve the targets.
- Electric and hybrid utes are needed to achieve the targets for commercial vehicles. However, the introduction of these utes to our market has been much slower than was anticipated when the targets were set. Consequently, the 2023 target for commercial vehicles was not achieved and the 2024 target is not expected to be achieved.
- Roughly half of vehicle imports each year are used vehicles. These vehicles must meet the same targets as new vehicles despite having older technology. The VIA has stated that with the average mix of used-imports with price points acceptable to New Zealand consumers, importers will not achieve the 2026 and 2027 targets.

23.2 The current targets can be expected to increase vehicle prices as:

- The MIA has stated that if the targets and the weight adjustment formula for 2025 and 2026 are not changed, by 2027 65% of new vehicles are forecast to attract charges of \$800 million, none of which can be covered by emission credits. If this cost is spread across all new vehicles as forecasted in 2027, it would amount to \$5,418 per vehicle. Alternatively, if the charges are spread across the vehicles attracting the charges, this equates to an estimated per-vehicle charge of \$8,328.
- The VIA does not expect affordable used EVs priced under \$30,000 to be available in significant volume until 2030.

23.3 The current targets can be expected to reduce vehicle supply as:

- Globally the supply of used-EVs is significantly constrained. The VIA expect that over 2025–2027 at best 4,000–6,000 battery EVs could be sourced from Japan, this would only be around 5% of used-imports.
- The VIA considers that sourcing used-hybrid vehicles that meet the 2026 and 2027 target to compensate for the lack of EVs, will be virtually impossible.

¹ The stringency of the 2026 target is tied with California in being the most stringent. The 2027 target is ahead of California's.

- The MIA has stated that the supply of well-equipped vehicles will decline. To manage the extra cost of manufacturing vehicles that meet the CO2 targets, manufacturers are likely to make vehicle specification changes that remove vehicle content, such as on-board technology and safety features.

New Zealand will benefit from resetting the targets and doing so by aligning them with Australia

24 I propose that the targets be reset by aligning them with the targets in Australia’s CO2 emission standard. The Australian standard will be in effect from 1 January 2025 and has targets set to 2029.

25 For new vehicles, alignment with Australia is beneficial because it would facilitate vehicle manufacturers supplying our market as part of Australia. This would afford our small market a higher priority for supply than it would otherwise have. For used-imports, alignment pushes out the current targets by 2–3 years. This allows more time for the volume of EVs available to import from Japan to increase. This will help overcome the current constrained supply of EVs our used-importers are facing.

26 The proposed targets and the percentage reduction in average emissions they require are in the table below. The proposal includes setting targets to 2029 to be consistent with Australia and to increase certainty for the vehicle industry.

27 In the view of officials, the proposed targets hit the “sweet spot” in being sufficiently stringent to maximise reductions in CO2 emissions and motoring costs, while still enabling a continuous supply of affordable low-emission vehicles for consumers. Industry has confirmed that they consider the targets stringent but achievable.

Vehicle prices rises are unlikely with these proposals

28 Importantly, the proposed targets are unlikely to raise vehicle prices for consumers. The MIA’s submission confirms that the targets are achievable across the industry and consistent with no charges being imposed to flow through into increased prices. The VIA’s submission estimates that with the current 2026 target, \$1,500–\$2,000 would be added to the average imported used-hybrid. The proposed targets avoid this price increase for consumers.

| | Passenger vehicles (cars and SUVs) | | | | Commercial vehicles (vans, utes, light trucks) | | | |
|------|------------------------------------|-----------|----------------------------|-----------|--|-----------|----------------------------|-----------|
| | Current Target (g CO2/km) | Reduction | Proposed Target (g CO2/km) | Reduction | Current Target (g CO2/km) | Reduction | Proposed Target (g CO2/km) | Reduction |
| 2025 | 112.6 | 16% | No change 112.6 | 16% | 155 | 23% | 223 | 7% |
| 2026 | 84.5 | 25% | 108 | 4% | 116.3 | 25% | 207 | 7% |
| 2027 | 63.3 | 25% | 103 | 5% | 87.2 | 25% | 175 | 15% |
| 2028 | Not set | - | 76 | 26% | Not set | - | 144 | 18% |
| 2029 | Not set | - | 65 | 14% | Not set | - | 131 | 9% |

29 The proposal effectively push-outs the current passenger targets by around two years and the commercial ones by more than 3-years. The greater degree of change to the commercial targets reflects that the current ones are especially stringent.

The proposed targets follow the leading jurisdictions

- 30 For passenger vehicles, our proposed targets would trail the EU, the global leader by around four years². However, by 2028 they are broadly the same as those in the United States and remain ahead of South Korea and Japan (see Annex 1).
- 31 For commercial vehicles, by 2029 the face-value of the targets would trail the USA, the global leader with a fleet most similar to ours, by around 5-years (see Annex 1). However, the actual stringency of the targets would trail by 2 to 3-years³ as the USA operates its Standard with technology multipliers. These multipliers artificially inflate the number of vehicles that meet the targets. They are awarded for specific CO₂ emission reduction technologies, such as EVs, high efficiency lighting and engine idle start-stop.

I recommend the targets be reviewed every two years

- 32 Given the uncertainties involved in setting targets, I propose their achievability be reviewed every two years, with the next review being reported back to the Cabinet Economic Policy Committee, by the Minister of Transport, by 30 June 2026.

Exempting disability vehicles from the Standard

- 33 To progress the Government's manifesto commitment, I propose disability vehicles be excluded from the Standard. This proposal would result in around 400 disability vehicles being exempted each year. I also propose that this change come into force on the date the amendment regulations are made.
- 34 Without the exemption there is a risk that the prices of disability vehicles will rise because of charges for non-compliance with annual targets. This is likely because these vehicles tend to be heavier and as a consequence have higher per kilometre CO₂ emissions than their non-modified counterparts. Price rises would further entrench the risk of transport disadvantage for the disabled community. They also pose risk to the financial viability of vehicle importers that specialise in the supply of modified vehicles.
- 35 Currently, a disability vehicle is defined as a light vehicle that is used for the transportation of a person with a disability and is modified to do either, or both, of the following:
- 35.1 enable a person in a wheelchair to safely enter and exit the vehicle and enable the person and the wheelchair to be safely restrained while the vehicle is moving

² This is based on the trajectory implied by the 2030 EU target of 28 grams CO₂/km. The EU target is expressed in 4p-WLTP and is 49 grams CO₂/km. Converted to 3p-WLTP, the assessment applicable in New Zealand, this is 28 grams.

³ This reflects the United States Environmental Protection Agency modelling see page 215 of the Rule published at this address: <https://www.epa.gov/regulations-emissions-vehicles-and-engines/final-rule-multi-pollutant-emissions-standards-model>

- 35.2 provide a person in a wheelchair, or of limited mobility, with assistance to enter and exit the vehicle through the use of a swivel or swing-out seat.
- 36 In progressing the exemption, officials will work with the Parliamentary Counsel Office to improve this definition to limit any fraudulent exemptions.

Achievement of the targets would be made more likely by enhancements to the Standard's flexibility measures

- 37 The Standard has flexibility measures to make it easier for importers to comply. These measures allow importers to use their own, or other importers', over-achievement of targets to offset underachievement.
- 38 To support achievement of the proposed targets, I propose enhancing the Standard's flexibility measures by:
- 38.1 extending the lifespan of CO2 emission credits (existing and future) from three to four years. Credits are earned on any vehicle that is below the relevant target. Extending their lifespan to four years will encourage importers to over-achieve the targets where possible to increase their credit buffers against any future target underachievement. Extending the timeframe is not expected to materially impact overall emission reductions because all under-achievement of targets must be offset, either by an importer over-achieving at a later date, or by purchasing another importer's over-achievement
- 38.2 extending the use of borrowing (this is called "payment obligation deferral") beyond 2025. With borrowing, importers who do not achieve their annual target can make up the under-achievement the following year by over-achieving the subsequent year's target by an equal amount. This flexibility only applies to importers that comply on an annual basis (some importers comply throughout the year on a vehicle-by-vehicle basis). Currently, this provision is only available until 2025
- 38.3 removing the current restriction⁴ on credit transfers between the new and used-import sectors, with a 2026 start date for transfers. Credit transfers would occur with an "exchange rate" of two for one (ie a credit earned on a new vehicle would be worth twice as much as one earned on a used-import).

Technical changes

I propose targets stop being weight-adjusted once there is no material relationship between vehicle weight and CO2 emissions

- 39 As outlined in paragraph 19, the weight-adjustment of targets is a temporary setting. As the share of EVs and hybrids being imported increases, there will eventually be no material relationship between vehicle weight and CO2 emissions and no rationale to weight-adjust the targets.
- 40 We came close to this point in 2023 for passenger vehicles. A regression of the vehicle registrations found only a very weak relationship between vehicle weight and CO2 emissions. This weak relationship was caused by the share of internal

⁴ Section 180(3) of the Land Transport Act provides that "No transfer may be made between a carbon dioxide account relating to new vehicles and a carbon dioxide account relating to used vehicles."

combustion vehicles in vehicle imports falling to 46.1% for new vehicles and 41.6% for used-imports.

- 41 It is critical to stop weight-adjusting targets when there is no linear relationship to prevent heavier vehicles being advantaged with easier targets. This advantage would distort the vehicle market. Specifically, importers with a market offering with relatively more heavier vehicles than lighter ones would be able to import a greater number of high emitting vehicles without facing charges. They would also be able to earn more emission credits for meeting their targets than their competitors. These credits can be used to offset future target under-achievement, or be transferred to other importers for financial gain.
- 42 Used vehicle importers would be more disadvantaged than the new vehicle sector if weight-adjustment continued longer than it should. This is because used importers tend to supply vehicles that are lighter than the average new vehicle entering the fleet.
- 43 To minimise the risk of weight-adjustment continuing longer than it should, I propose that targets stop being weight-adjusted when there is no material linear relationship between vehicle weight and CO2 emissions. For passenger vehicles this is expected to be in 2027 on the basis of 2025 vehicle registration data. For commercial vehicles this will be a number of years away as there are no new EV utes available on our market and hybrid utes are only being introduced this year.

Changing the weight-adjusting formula for 2025 and 2026 for passenger vehicles

- 44 The current regulation requires 2023 vehicle registration data to be used to set the weight-adjustments for 2025 and 2026. However, these registrations are atypical because the decision to end the Clean Car Discount brought forward and increased the registrations of passenger EVs and hybrids.
- 45 If 2023 data is used the weight-adjusting slope for the formula of 0.0036 will apply. This will cause very close to uniform targets to be in effect, which will significantly disadvantage new vehicle distributors. To prevent this market distortion, I propose to amend the weight-adjusting formula for passenger vehicles to:
- 45.1 use 2021 and 2022 vehicle registrations to determine the slope of the weight-adjusting formula for 2025. These registrations have a slope of 0.0457
- 45.2 set the slope for 2026 by reducing the 2025 slope by 25% to give a slope of 0.0343. A 25% reduction was proposed by the vehicle industry and is acceptable to both new and used vehicle importers.

I propose increasing the minimum and maximum weights that limit weight-adjusting of the targets for commercial vehicles

- 46 In adjusting the targets, minimum and maximum weights apply to avoid small vehicles facing too stringent targets and heavier vehicles too weak ones. For commercial vehicles the current minimum and maximum weights are too low and inadvertently increase the stringency of the targets. To address this, I propose increasing from 2025 the:

- 46.1 minimum tare weight from 1,200 to 1,600 kilograms. All vehicles up to this minimum weight would attract the same target as a 1,600 kilogram vehicle
- 46.2 maximum tare weight from 2,200 to 2,300 kilograms. All vehicles over this maximum weight would attract the same target as a 2,300 kilogram vehicle.

I propose to fix an error in the Regulations

- 47 There is an error in the Regulations where the dates by which certain data must be published for the weight-adjusting formula refer to the reference period, rather than the obligation year. I propose to amend this error so that the publication requirements are stated as intended.

Implementation

- 48 As the regulator, the New Zealand Transport Agency will implement the system and business process changes needed to give effect to the proposals in this paper. The changes to the IT systems and business processes for the enhanced flexibility measures are expected to be in place during 2026.

Cost-of-living implications

- 49 The proposals in this paper will contribute to reducing the cost of living through increasing the supply of vehicles that have lower running costs.
- 50 The proposals will also avoid increases in vehicle prices. The MIA expects that with the current targets new vehicle prices would rise by around \$5,400 per vehicle, in 2027, if the resultant charges for target non-compliance are spread across all vehicles. Alternatively, if the charges are spread across the vehicles attracting the charges, increases of around \$8,300 would result.

Financial implications

- 51 NZTA will resource the IT system and business processes to give effect to the proposals in this paper. NZTA expects to resource this through a combination of using accumulated charge revenue and cost recovery of the Standard's administration costs.

Legislative implications

- 52 The proposals in this paper require changes to the Land Transport Act 1998 (the Act) and the Land Transport (Clean Vehicle Standard) Regulations 2022 (the Regulations). To secure these changes I intend, s 9(2)(ba)(ii), s 9(2)(f)(iv)

The changes to the Act will be secured s 9(2)(ba)(ii), s 9(2)(f)(iv)

Regulatory Impact Statement

- 53 A Regulatory Impact Statement (RIS) for this proposal has been completed and is attached to this Cabinet paper. A panel comprised of representatives from the

Ministry of Transport has reviewed this RIS and given it a partially meets rating under the quality assurance criteria.

Climate impacts and implications for meeting statutory emissions budgets

- 54 The Minister of Climate Change, on behalf of the Crown, has a duty to ensure that emissions budgets are met. These budgets are legally binding stepping stones towards achieving our medium-term climate targets. Officials consider that the proposed targets will not impact the ability to meet emissions budgets. This is because:
- 54.1 transport emissions are covered by the ETS, therefore changing the Standard's targets might change how, or where, emissions reductions occur from a gross perspective, but not from a net perspective. While there is uncertainty over the timing of emissions reductions under the ETS, this is also the case with emissions reductions from policy changes.
- 54.2 the current targets would be unachievable for industry to meet and will not deliver the gross emissions reduction in the transport sector that were intended to be achieved from the Standard. With these targets more importers will likely pay charges, rather than increase the supply of lower emissions vehicles and deliver lower gross emissions in the transport sector. Moreover, the flow-through of the charges into higher vehicle prices will encourage consumers to hold onto their existing higher emitting vehicles for longer. So the counterfactual is that we will not realise the gross emission reduction potential we expected from the Standard.
- 55 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal.
- 56 The current targets are estimated to deliver projected gross CO₂-e emission reductions of around 10.1–10.8 Mt CO₂-e over 2022–2050, noting that these targets are unlikely to be achieved. Consequently, the emission reduction potential may be difficult to realise as the charges for non-achievement of targets will flow-through into increased vehicle prices, encouraging people to hold onto their older emissions intensive vehicles for longer.
- 57 The proposed targets are estimated to deliver 8.2–9.6 Mt CO₂-e emission reductions over 2022–2050. As the proposed targets are more achievable, they are less likely to result in charges being imposed across the vehicle industry. This will make the estimated 8.2–9.6 Mt CO₂-e emission reduction potential less difficult to realise.
- 58 The reduction in projected emissions abatement of 1.2–1.9 megatonnes (Mt) CO₂-e over 2024–2050, corresponds to 257–318 kilotonnes CO₂-e over Emissions Budget 2, and 379–572 kilotonnes CO₂-e over Emissions Budget 3.
- 59 Overall, this paper's proposals increase the certainty that the projected level of gross CO₂ reductions attributable to the Standard of 8.2–9.6 Mt for the period to 2050 will be realised.
- 60 There is a high level of uncertainty in the figures, but the data is consistent with existing and proposed policy settings. The CIPA team is satisfied with the quality of the modelling and data.

Population Implications

- 61 The proposal to exempt disabilities vehicles from the Standard will ensure that disabled people's access to transport is not compromised. There are no other population implications.

Human Rights

- 62 There are no human rights implications arising from this proposal.

Use of external resources

- 63 No external resources were used in the drafting of this paper.

Consultation

Departmental consultation

- 64 The following agencies were consulted on the contents of this paper: New Zealand Transport Agency, Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, the Treasury, Ministry for the Environment, New Zealand Customs Service, Ministry of Social Development, Ministry for Disabled People, Ministry for Primary Industries, and the Energy Efficiency and Conservation Authority. The Department of the Prime Minister and Cabinet has been informed.

View of the Ministry for the Environment

- 65 MfE's view is that this paper would have benefited from considering additional options that could better balance the impact on consumers and ambition for emissions reduction. This could include options to support industry to meet existing targets, options to adjust the level of charges for exceeding targets, and options for more moderate reductions in targets. Substantially reducing ambition from short-term targets should not be the only option considered in response to missing those targets.
- 66 We also note that a reduction in targets is being sought shortly before updated information on the impacts on emissions is expected. MfE views that decisions on the targets should be postponed until this new information can be considered.
- 67 MfE also considers the analysis of the impacts of the proposed changes on the mix of vehicle imports and related emissions to miss an important nuance. The climate impacts section relies on the ETS 'waterbed effect', but the impact of the waterbed effect may be delayed making the achievement of specific emissions budgets more challenging. In this case, the expected budget impacts are expected to be fairly immaterial based on current modelling, but for specific emissions budgets the waterbed effect cannot be relied on to make up for policy changes that deliver less emissions reductions.

View of the vehicle industry

- 68 The proposals have been informed by discussions with the Motor Industry Association (MIA), the Imported Motor Vehicle Industry Association (VIA), the Motor

Trade Association (MTA) and the New Zealand Automobile Association (AA). The proposals are largely supported by these associations.

- 69 However, the MIA’s support for the level of the targets is contingent on a 4-year transition to uniform targets (ie no weight adjustment). The VIA would prefer moving to uniform targets from 2025 for both passenger and commercial vehicles. In its view uniform targets would encourage vehicle importers to increase the supply of smaller vehicles. The VIA is concerned that the review in 2026 of the decision to stop weight-adjusting passenger targets from 2027 will be “another opportunity to decrease the ambition of the targets. We recommend that it only include options that reduce the length of the transition and increase CO2 reductions”.

Communications

- 70 I intend to issue a media release announcing the Government’s decisions to improve the Standard. This will be supported by information on the New Zealand Transport Agency and Ministry of Transport websites. The New Zealand Transport Agency will also engage directly with the vehicle industry.

Proactive Release

- 71 This Cabinet paper and its corresponding minute will be proactively released within 30 business days of final decisions being taken by Cabinet.

Recommendations

The Minister of Transport recommends that the Committee:

Resetting and reviewing the annual CO2 targets

1. **agree** that the CO2 targets for the Clean Vehicle Standard be reset to align with Australia’s to give the following targets:

| Year | Passenger vehicles (cars, SUVs) (grams CO2/km) | Commercial vehicles (vans, utes, light trucks) (grams CO2/km) |
|------|---|--|
| 2025 | 112.6 (no change) | 223 |
| 2026 | 108 | 207 |
| 2027 | 103 | 175 |
| 2028 | 76 | 144 |
| 2029 | 65 | 131 |

2. **agree** that given the uncertainties involved in setting targets that the targets’ achievability be reviewed every two years, and **invite** the Minister of Transport to report the outcome of the next review to the Cabinet Economic Policy Committee by 30 June 2026

Excluding disability vehicles from the Standard

3. **agree** that disability vehicles be excluded from the Standard and that the exclusion come into force as soon as possible after the amending regulation is made, noting that this waives the 28-day notice period
4. **note** that as part of the amendments made to the Land Transport (Clean Vehicle Standard) Regulations 2022 (the Regulations), officials will work with the Parliamentary

Counsel Office to improve the current definition of disability vehicle to limit any fraudulent exemptions

Adding more flexibility into the use of emission credits and charges

5. **agree** to enhance the Standard's flexibility measures by:
 - 5.1. extending the lifespan of emission credits (existing and future) from three to four years
 - 5.2. extending the use of borrowing of future target overachievement (payment obligation deferral) beyond 2025
 - 5.3. removing the legislative restriction on credit transfers between the new and used import sectors, with a 2026 start date for transfers

Technical changes

6. **agree** that targets stop being weight-adjusted when there is no material linear relationship between vehicle weight and CO2 emissions, noting that for passenger vehicles this could be in 2027 on the basis of 2025 vehicle registration data
7. **agree** that as 2023 was atypical for sales of low-emission vehicles, that the weight-adjusting formula for passenger vehicles for 2025 and 2026 be amended so that:
 - 7.1. registrations for 2021 and 2022 are used to determine the slope of the weight-adjusting formula for 2025, noting that this gives a slope of 0.0457
 - 7.2. the slope for 2026 is determined by reducing the 2025 slope by 25%, noting that this gives a slope of 0.0343
8. **note** that the current minimum and maximum tare weights used in the weight-adjusting formula for commercial vehicles are too low, and will inadvertently be increasing the stringency of the targets
9. **agree** that from 2025 the current minimum and maximum tare weights for light commercial vehicles, be increased from 1,200 kilograms to 1,600 kilograms, and from 2,200 kilograms to 2,300 kilograms respectively
10. **agree** to correct an error in the Regulations so that the publication dates for data for the weight-adjusting formula are determined by the obligation year rather than the reference period

Legislative amendments

11. **note** that the proposals in recommendations (1), (3), (7), (9) and (10) will require amendments to the Regulations
12. **note** that the proposal in recommendation (1) requires the Land Transport (Clean Vehicle) Amendment Bill 2024 to be enacted before the proposal can be given effect
13. **note** that proposals in recommendations (5) and (6) will require amendments to the Land Transport Act 1998, and I intend to ^{s 9(2)(ba)(ii), s 9(2)(f)(iv)}

14. **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above decisions, including any necessary consequential amendments, savings, and transitional provisions
15. **authorise** the Minister of Transport to make any minor or technical amendments that arise during the drafting of legislative amendments to give effect to these decisions

Communications

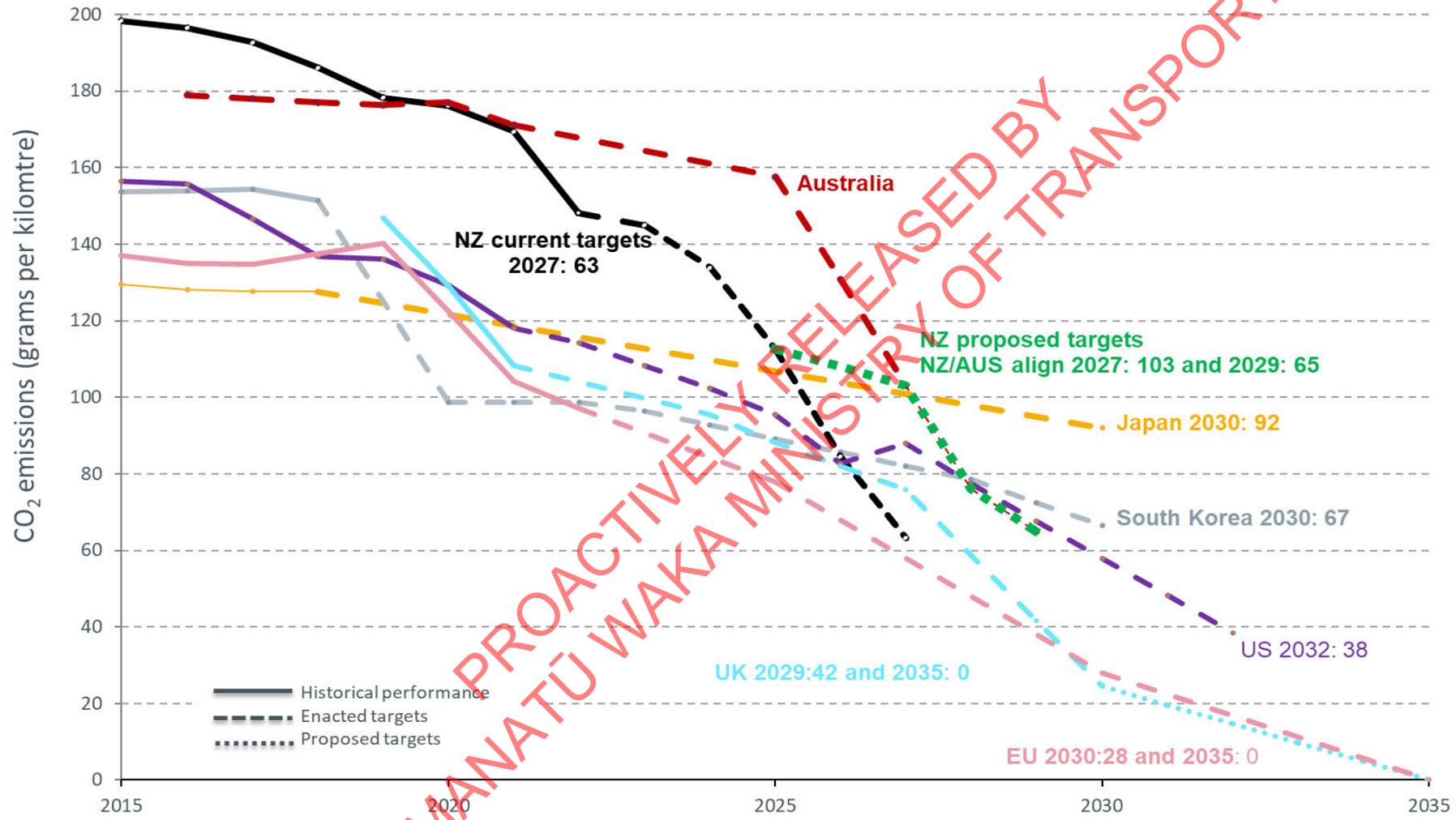
16. **note** that I will issue a media release following Cabinet's approval of the recommendations in this paper.

Authorised for lodgement

Hon Simeon Brown
Minister of Transport

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

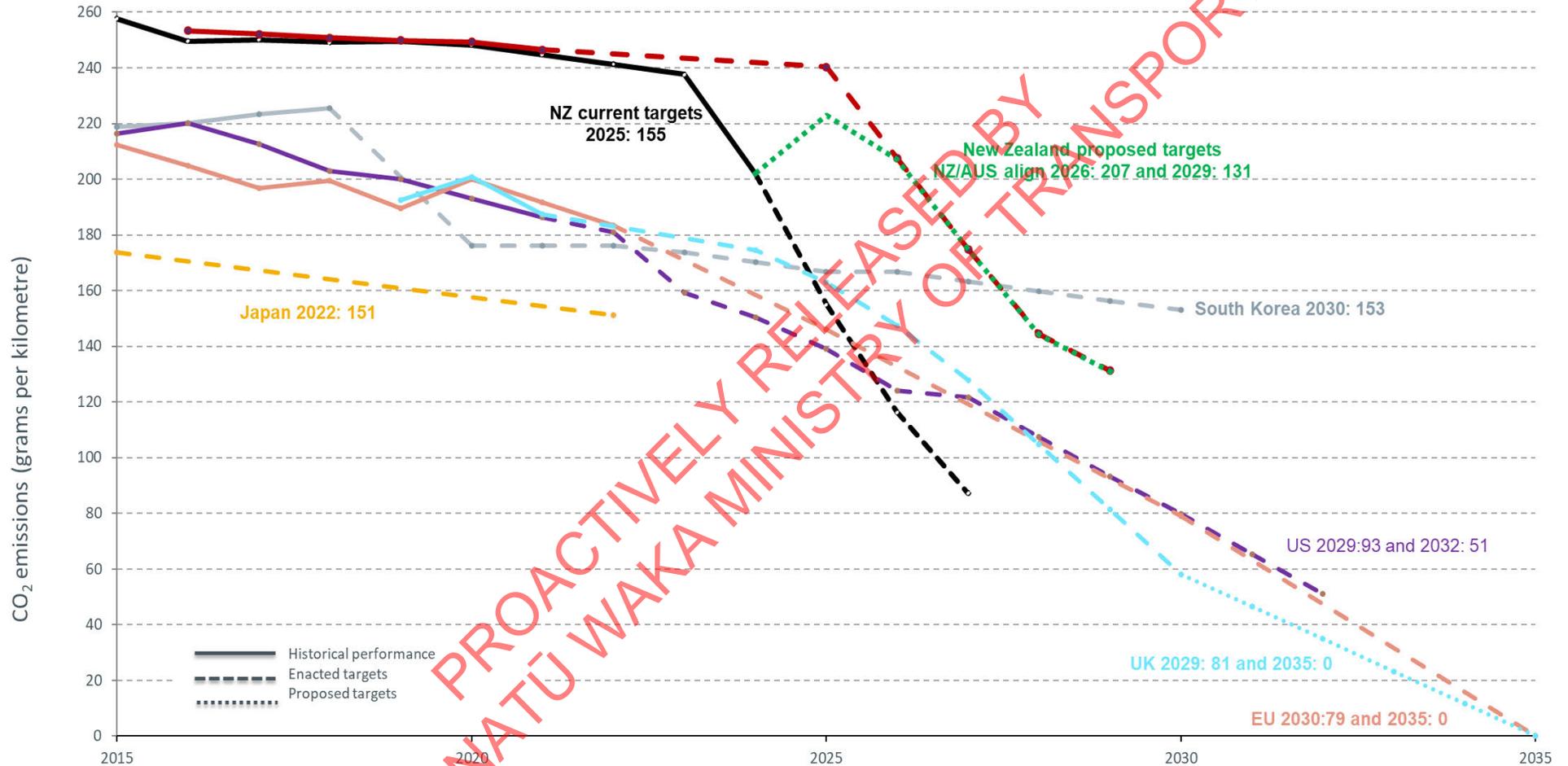
ANNEX 1 – New Zealand’s current and proposed passenger vehicle CO2 targets compared to selected jurisdictions (normalised to 3p-WLTP the test cycle used to assess the CO2 emissions of vehicles supplied to New Zealand)



Note: UK fleet-average targets estimated based on non-ZEV CO2 emissions and ZEV mandate.

<https://theicct.org/pv-fuel-economy/>
Updated April 2024

New Zealand's proposed commercial vehicle CO2 targets compared to selected jurisdictions (normalised to 3p-WLTP the test cycle used to assess the CO2 emissions of vehicles supplied to New Zealand)



Note: UK fleet-average targets estimated based on non-ZEV CO2 emissions and ZEV mandate.

<https://theicct.org/py-fuel-economy/>
Updated April 2024

Climate Implications of Policy Assessment: Disclosure Sheet

This disclosure sheet provides the responsible department’s best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand’s emissions budgets.

Section 1: General information

| General information | |
|---|--|
| Name/title of policy proposal or policy option: | Outcome of the review of the Clean Car Importer Standard (the Standard) |
| Agency responsible for the Cabinet paper: | Ministry of Transport |
| Date finalised: | Updated results produced June 2024. |
| Short description of the policy proposal: | <p>This policy proposal seeks to amend the Standard following its review. The key proposals are to:</p> <ul style="list-style-type: none"> • set achievable targets for 2025–29 aligned with Australia’s • add more flexibility into the use of the Standard’s emission credits and charges to support achievement of the targets • exempt disability vehicles from the Standard. |

Section 2: Greenhouse gas emission impacts

| Sector & source | Changes in greenhouse gas emissions in kilotonnes of carbon dioxide equivalent (CO ₂ -e) | | | | | | Cumulative impact |
|-----------------|---|---------|---------|---------|---------|---------|-------------------|
| | 2022–25 | 2026–30 | 2031–35 | 2036–40 | 2041–45 | 2046–50 | |
| Transport | 0-1 | 257-318 | 379-572 | 285-465 | 192-323 | 102-182 | 1,215-1,860 |
| Total | 0-1 | 257-318 | 379-572 | 285-465 | 192-323 | 102-182 | 1,215-1,860 |

Section 3: Additional information

Additional information

- The output is from an update of the Vehicle Fleet Emissions Model (VFEM), this model estimates the impact of the Clean Car Standard (CCS) as part of the GHG projections.
- The estimate should be considered to have a high level of uncertainty but is considered an improvement on previous modelling as it is consistent with existing and proposed policy settings, and has includes more up to data input data.
- The table provides estimates of two scenarios, one aligned with the industry projections and one aligned with global projections, these estimates only consider the uncertainty around EV uptake therefore only estimate a portion of the total uncertainty.
- The method applies an additional cost (rebate) to the purchases of vehicles above the target and the level of cost depends on how much the vehicle's WLTP emissions differ from the target. The VFEM model then applies elasticities to estimate the behavioural change of consumers when facing a change in cost. This in turn leads to a change in purchase volumes of vehicles in each group, with average emissions factors applied to each group, along with vehicle kilometres travelled to calculate energy use and emissions. The modelling is done by year, new/used, light passenger vehicle/light commercial vehicle, powertrain (5 groups), weight (5 groups). The modelling has assumed the emission reduction potential would be more likely realised with the proposed settings of the Standard than with current settings.
- The emissions impact of the weakening of the targets is partly offset by other changes to settings, particularly the slope change used in the weight-adjusting formula that will incentivise smaller vehicles relative to current settings. Only the impact of the change to the targets is reflected in these estimates because changes to other offsetting components of the settings (slope and vehicle weight) are considered in both the current and proposed settings of the Standard.

Section 4: Quality assurance

Quality assurance

The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do apply to this proposal, as an objective of the proposal is to reduce greenhouse gas emissions and the modelled greenhouse gas emissions impact of this proposal meets the CIPA threshold.

The estimated total emissions impact is 1,215-1,860 kilotonnes CO₂-e over the period 2022 to 2050 for the transport sector. This corresponds to 257-318 kilotonnes CO₂-e over Emissions Budget 2, and 379-572 kilotonnes CO₂-e over Emissions Budget 3.

The purpose of the original CCS is to reduce emissions on condition that annual CO₂ targets are met. When CO₂ targets are not met, financial charges are prescribed on vehicle importers and consequently, consumers. The existing targets are considered too optimistic and are expected to lead to a high level of charges on vehicle importers that would increase average vehicle prices, and may contribute to people holding onto their older more emissions intensive vehicles for longer. The proposed policy change is expected to provide more achievable targets that will reduce the level of charges and limit average vehicle prices while still encouraging the purchase of lower emissions vehicles.

This proposal weakens the targets which are expected to reduce the projected GHG emissions abatement. However, it also includes other settings changes that are expected to partially offset GHG emissions. There is a high level of uncertainty in the figures, but the data is consistent with existing and proposed policy settings. The CIPA team is satisfied with the quality of the modelling and data.

Regulatory Impact Statement: Revising the Clean Car Importer Standard Targets

Coversheet

| Purpose of Document | |
|---|--|
| Decision sought: | Amendment of CO ₂ targets and technical changes to flexibility measures of the Clean Car Importer Standard from 2025 onwards. |
| Advising agencies: | Ministry of Transport |
| Proposing Ministers: | Minister of Transport |
| Date finalised: | 25 June 2024 |
| Problem Definition | |
| <p>The <i>Clean Car Importer Standard</i> (the Standard) incentivises the transition to a lower CO₂ emission vehicle fleet in support of New Zealand’s decarbonisation and economic goals. Vehicle importers must meet annual CO₂ emissions targets (average per vehicle) that become stronger each year. The current targets (for 2023-2027) are based on market forecasts and assumptions about future market conditions when the policy was finalised in 2022.</p> <p>The first planned review of the targets in early 2024 found that supply and demand have not developed as expected. Revised targets should be set that reflect the current market and up to date forecasts, while retaining the appropriate balance of incentives and charges to deliver the policy objectives.</p> <p>If unchanged these targets will likely reduce vehicle supply, raise prices and slow-down the uptake of low and zero emission vehicles.</p> | |
| Executive Summary | |
| <p>The Standard aims to incentivise the transition to a lower CO₂ emission vehicle fleet by setting progressively stronger annual average CO₂ emissions targets for vehicle importers. Financial charges apply to importers that do not achieve their targets. Targets have been set for 2023 to 2027 based on forecast market trends and assumptions that were current when the policy was being finalised in 2022.</p> <p>CO₂ emissions targets need to be reviewed regularly because the rapidly evolving vehicle market for low emission vehicles makes forecasting supply and demand significantly uncertain. The first review in early 2024 found that:</p> <ul style="list-style-type: none">• Supply and demand have not developed as forecast.• Targets for <i>passenger</i> vehicles from 2026 onwards are too stringent.• All targets set for <i>commercial</i> vehicles are too stringent. <p>If we do not revise the targets, the industry and consumers will face increasing costs through higher vehicle prices, reduced competition, and fewer and lower quality vehicle models for sale. This would (perversely) slow the transition to a lower emission vehicle fleet which would be the opposite of the policy objective.</p> | |

This RIS considers three options for responding to the review:

- Option 1: retain the status quo
- Option 2: reset the targets to be achievable while still ambitious
- Option 3 (*preferred*): reset the targets as in Option 2 and enhance the Standard's flexibility measures. These measures support secondary objectives of the policy (see paragraph 29) which aim to make it easier for importers to comply with the Standard and help minimise equity and fairness concerns.

The Standard will deliver net positive benefits across a range of factors including reduced energy costs, improved air quality through reduced noxious emissions, and reduced GHG emissions to support achievement of New Zealand's climate commitments. With the status quo, the Standard has a net present value of \$1,158–\$1,268 million compared to a scenario without the Standard.

Option 3 makes changes to the Standard that reduce the scale of the potential benefits. It has an associated net present value of \$996–\$1,136 million compared to a scenario without the Standard. While the net present value is lower, Option 3 is preferred because its settings are more achievable than the status quo and it will provide greater certainty that the Standard's benefits will be delivered. This includes reducing gross GHG emissions by around 8.2–9.6 Mt for 2022–2050.

Without the Option 3 changes, the Standard's net benefit, including its GHG emission's abatement may be difficult to realise as the charges for non-achievement of targets will flow-through into increased vehicle prices encouraging people to hold onto their older emissions intensive vehicles for longer.

Emission projections and cost benefit analysis have replaced older estimates and are based on our most up-to-date modelling and assumptions. Unless otherwise indicated, the rest of this paper focuses mainly on the marginal costs and benefits, compared to Option 1.

Limitations and Constraints on Analysis

The RIS focuses on the scope of the review of the Standard's targets as prescribed in legislation, with additional scope agreed by the Minister of Transport (refer paragraphs 8-9).

The RIS has not assessed separate policy options that would enable stricter targets and faster decarbonisation, such as stimulating demand for low and zero emission vehicles. Such interventions would likely require, additional government funding or reduced transport revenue.

The vehicle industry and the Automobile Association on behalf of motorists, were consulted, during the review. However, vehicle importers that were not represented by the MIA, MTA or VIA were not engaged. Stakeholders outside of key vehicle industry associations have not been engaged with due to time constraints and Ministerial preferences to engage with peak industry bodies.

The NZ Transport Agency Waka Kotahi has given input into the RIS, and the Ministry for the Environment has reviewed relevant underlying material, such as impacts on emissions.

The preferred option (Option 3) mitigates some risks caused by the above constraints. For example, establishing two-yearly reviews of the targets to address the inherent uncertainty in setting future targets.

Emission projections and cost benefit analysis have replaced older estimates and are based on our most up to date modelling and assumptions and will be incorporated into advice for the Second Emissions Reduction Plan.

Responsible Manager(s)

Nick Paterson



Manager, Environment

Ministry of Transport

25 June 2024

Quality Assurance (completed by QA panel)

Reviewing Agency: Ministry of Transport

Panel Assessment & Comment: *This RIS was reviewed by a panel of representatives from the Ministry and Maritime New Zealand. It received a 'partially meets' rating against the quality assurance criteria for the purpose of informing Cabinet decisions.*

The RIS cannot achieve a full 'meets' rating because the proposals have not been subject to public consultation. A public consultation phase would have provided more granular feedback about the potential implications of different approaches. The options analysis relies on targeted industry feedback and may not reflect the true costs and benefits for wider society.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

The Standard sets CO₂ emissions targets for vehicle importers through section 175 of the Land Transport Act 1998 (the Legislation)¹

1. The Legislation sets annual CO₂ emissions targets for 2023 to 2027.
2. New Zealand was one of the last developed countries to adopt a regulated CO₂ emissions standard. In 2019, when the Standard was publicly consulted on, the vehicles being imported were among the most fuel inefficient and highest CO₂ emitting in the OECD.
3. Approximately 300,000 light vehicles enter New Zealand each year and are subject to this legislation.

The Standard encourages a shift to zero and low emission vehicles

4. The Standard aims to incentivise the transition to a lower CO₂ emission vehicle fleet by setting progressively lower (ie more challenging) annual average CO₂ emissions targets for vehicle importers. A positive consequence of this is lower motoring costs for New Zealanders through reduced fuel usage. The Standard incorporates the following common global features:

¹ The Clean Vehicle Standard was inserted, on 23 February 2022, by section 10 of the Land Transport (Clean Vehicles) Amendment Act 2022

- a. Importers can import high emission vehicles if they import enough zero and low emission vehicles to reach their annual targets.
- b. Importers earn credits when they over-achieve targets, which they can use to help achieve future targets. Credits can be transferred between importers, allowing over-achievers to support under-achievers. Transfers are not permitted between the new and used vehicle sectors.
- c. Where importers do not meet their targets, they are subject to charges. A charge is paid for every gram of CO₂ that a supplier exceeds its targets.
- d. Until the end of 2025, some importers can miss a target if they make up the difference the following year. Importers are not permitted to do this in multiple consecutive years.
- e. Different targets apply to passenger and commercial vehicles.
- f. Targets on vehicles are individually adjusted by vehicle weight, given heavier vehicles generally produce higher emissions. This incentivizes all vehicles, irrespective of weight, to improve their fuel efficiency and CO₂ emissions. Minimum and maximum weights apply to avoid small vehicles facing overly stringent targets and heavier vehicles overly weak ones.

CO₂ emissions targets are set based on forecast supply and demand of zero and low emission vehicles

5. The 2023-2027 targets aimed to shift our market from lagging to aligning with global leaders. For commercial vehicles, the targets sought to make New Zealand the global leader. A comparison of targets of relevant countries is found in **pages 10 and 11**.
6. The targets were set with the assumption of strong market conditions with increasing demand for and availability of zero and low emission vehicles.
7. We intend to periodically review the targets to reflect actual market conditions and revised forecasts.

Section 175A of the Land Transport Act 1998 requires a review of the Standard's targets to be commenced by 30 June 2024. This review is now complete.

8. The Legislation states the review must take into account:
 - The anticipated impact of the targets on vehicle CO₂ emissions, vehicle safety, and the affordability and availability of vehicles.
 - The levels of ambition of other jurisdictions, in terms of their existing and proposed CO₂ emissions targets.
 - Any other matter the Minister considers relevant in carrying out the review.
9. Additional areas of scope were agreed by the Minister of Transport²:
 - Setting targets for 2025–2029, rather than 2025–2027, to align with Australia's proposed targets. Globally, targets are often set for 5 years or more.
 - Considering uniform targets rather than weight-adjusted targets for light passenger vehicles.
 - Allowing more flexibility with using emission credits and paying charges.
 - Considering offering bonus credits for zero-emission vehicles.

The review found that the vehicle targets are no longer suitable

For passenger vehicles, the 2026-2027 targets are not achievable

² Via a departmental briefing OC240160 dated 15 March 2024.

10. The increased popularity of zero and low emission vehicles in 2023 meant the 2023 passenger vehicle target was met easily by both the used and new vehicle importer sectors. This was in part due to the Clean Car Discount, which encouraged demand for low emission vehicles. Importers earned significant quantities of CO₂ credits during 2023³. The 2024 and 2025 passenger targets appear achievable for both the used and new sectors. Both targets are easier than those of other major global markets over that timeframe.
11. The 2026 passenger vehicle target is close to globally leading, while the 2027 target is the second strongest globally. Vehicle market conditions and assumptions have changed, meaning these targets are not achievable.

For commercial vehicles, all targets are not achievable

12. Electric and hybrid utes are needed to achieve the targets for commercial vehicles. However, the introduction of these utes to our market has been much slower than was anticipated when the targets were set. Consequently, the 2023 target for commercial vehicles was not achieved and the 2024 target is not expected to be achieved.

The global supply of some types of EVs is not growing as quickly as expected.

13. Two important segments in the vehicle market are holding back progress:
 - Affordable, new, electric passenger vehicles that support mass market adoption. Purchase prices are falling but remain above what many buyers wish to pay.
 - Used imported electric passenger vehicles. These are well-priced but our source market is very constrained due to ongoing low domestic sales in Japan. Supply is improving, but at a later timeframe and at a slower pace than anticipated.

New electric and hybrid utes.

14. Their introduction is taking longer than anticipated. Hybrid models are appearing but do not yet offer meaningful emissions reductions. An EV ute was introduced last year but failed to gain traction in our market and was subsequently withdrawn. There is a fall in demand for new battery electric and plug-in hybrid vehicles.
15. This coincides with policy changes over the past six months and is likely influenced by ongoing cost of living pressures and challenging economic conditions.
16. Electric vehicles accounted for over 10% of all light vehicles imported in 2023. This has fallen to 2.4% for January-May 2024, less than New Zealand's 2021 and 2022 levels. New Zealand has moved from being ahead of, to behind both Australia and the average uptake rate of light electric vehicle imports globally.
17. A reduction in new car sales and an increase in used car sales from 2023 to 2024 suggests wider economic conditions and consumer purchasing preferences have changed.

If the targets are not revised, industry and consumers will face increasing costs

18. CO₂ credits earned in the passenger car sector to date are significantly more than needed to offset the underachievement in the commercial vehicle sector. This is a temporary solution, and future targets would soon exhaust the CO₂ credits.

³ Refer Clean Car Standard reports at <https://nzta.govt.nz/about-us/official-information-act/proactive-releases/>

Impacts of maintaining the status quo have been quantified by the vehicle industry.

19. The Motor Industry Association (MIA) represents 85% of new vehicle imports. The MIA states that if the targets are not changed, vehicle prices would rise from 2026.
20. The MIA has stated that if the targets and the weight adjustment formula for 2025 and 2026 are not changed, by 2027 65% of new vehicles are forecast to attract charges of \$800 million, none of which can be covered by emission credits. If this cost is spread across all new vehicles as forecasted in 2027, it would amount to \$5,418 per vehicle. Alternatively, if the charges are spread across the vehicles attracting the charges, this equates to an estimated per-vehicle charge of \$8,328.
21. Alongside increase in prices, the MIA has stated that the supply of well-equipped vehicles will decline. To manage the extra cost of manufacturing vehicles that meet the CO₂ targets, manufacturers are likely to make vehicle specification changes that remove vehicle content, such as on-board technology and safety features.
22. Roughly half of vehicle imports each year are used vehicles. These vehicles must meet the same targets as new vehicles despite having older technology. The average used import is 9.5 years old; therefore vehicles entering New Zealand next year may average being manufactured in 2015-2016, when Japan achieved actual levels of 128g. The target that currently applies in New Zealand next year is much stronger than the source market for used vehicles (112.6g in 2025, dropping to 63g in 2027).
23. The Imported Motor Vehicle Industry Association (VIA) has stated that with the average mix of used-imports with price points acceptable to New Zealand consumers, importers will not achieve the 2026 and 2027 targets.
24. As well, globally the supply of used-EVs is significantly constrained. The VIA expect that over 2025–2027 at best 4,000–6,000 battery EVs could be sourced from Japan, this would only be around 5% of used-imports. The VIA considers that sourcing used-hybrid vehicles that meet the 2026 and 2027 target to compensate for the lack of EVs, will be virtually impossible.
25. VIA expects that affordable used import EVs priced under \$30,000 will only become available in significant volume in 2030.

What is the policy problem or opportunity?

26. The Standard incentivises the transition to a lower CO₂ emission vehicle fleet, and in doing so contributes to New Zealand's decarbonisation and economic goals. Under the policy, vehicle importers must meet (average per vehicle) CO₂ targets which become stronger each year. The current targets (for 2023 to 2027) were based on market forecasts and assumptions about future market conditions that were current when the policy was finalised in 2022.
27. A review of the targets conducted in early 2024 concluded that supply and demand have not developed as expected. Therefore, the targets need to be reset to reflect the current market and future expectations, while retaining the appropriate balance of incentives and charges to deliver the policy objectives.

What objectives are sought in relation to the policy problem?

28. The primary objective is to accelerate the transition to a low emission vehicle fleet. This policy contributes to New Zealand's climate change commitments, including our 2050 net zero CO₂ target. The Emissions Trading Scheme (ETS) is New Zealand's primary tool for reducing emissions across the economy. This policy will support the ETS by addressing barriers to ensuring a sufficient supply of lower emissions vehicles to the New Zealand market.

29. The secondary objectives are to ensure the targets are:
 - a. measured to ensure the vehicle market supplies New Zealand consumers with a sufficient volume and range of affordable vehicles that meet their needs,
 - b. achievable by vehicle importers, and
 - c. effective over time causing vehicle importers to continuously source better vehicles with lower CO₂ emissions and running costs.
30. These objectives are codified via criteria expressed in the following section of the RIS.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

The objectives in paragraphs 28 and 29 are reflected in the following criteria. The criteria do not map one to one, but jointly combine to cover the objectives.

| Criteria | Description |
|----------------------------|--|
| Effectiveness | The extent to which the option accelerates the transition to a low emission vehicle fleet in a durable, stable way. |
| Equity and fairness | The option increases equity and fairness in the shift to low emission vehicles. Certain vehicle industry stakeholders or consumer segments should not be disproportionately disadvantaged. |
| Efficiency | The option maintains vehicle affordability, supply and demand, safety specifications and other desirable vehicle features, and encourages variety of available vehicle choices. |
| Compliance and risk | The option lowers compliance costs and reduces regulatory risk. |

What scope will options be considered within?

The scope is limited to the findings of the review on the Clean Car Importer Standard. (Refer the section above on *Limitations and Constraints on Analysis*).

What options are being considered?

Option 1 – *Status Quo*

31. Under this option, the government would maintain current policy and settings.
32. Targets would remain those set in the Legislation. These targets are similar to, or in some cases, more stringent than the targets of the leading markets. The 2026 and 2027 targets for commercial vehicles are the most stringent globally⁴. The 2027 target for passenger vehicles is the second most stringent behind the European Union.
33. The design of the policy would remain as it is, as summarised in paragraph 4.
34. As detailed in Section One, we do not expect that the industry can achieve these targets, and if unchanged these targets will likely reduce vehicle supply, raise prices and slow-down the uptake of low and zero emission vehicles (as consumers hold onto their vehicles for longer). If consumers hold onto higher emitting vehicles for longer this

⁴ Our 2026 target is tied with California in being the most stringent. Our 2027 target is ahead of California.

would likely result in higher CO₂ emissions from the vehicle fleet, when compared to options two and three.

35. This option ignores that periodic reviews of targets are necessary and ignores the findings of the review that has just been undertaken.

Option 2 – Reset the targets to be achievable while still ambitious

36. This option would change the targets, effectively delaying the current passenger segment targets by about 2-3 years and commercial segment targets by about 3 years.
37. This would enable the most popular and affordable low emission hybrid cars to continue to meet targets for longer, and used importers will avoid facing significant charges. The proposed targets allow more time for the introduction of affordable new zero and low emission vehicles and for better volumes of used EVs to be available to import from Japan.
38. The proposed commercial vehicle targets enable time for and affordable zero and low emission utes with suitable functionality to be introduced and become established in the market so that importers do not face unavoidable charges.
39. Rather than leading, the proposed targets closely follow the leading jurisdictions. Our targets would be aligned to Australia for passenger cars from 2027 and for commercial vehicles from 2025, and becoming roughly as ambitious as the U.S. towards the end of the decade. The targets would be behind the leaders (ie the U.K. and the E.U.) though well ahead of others (e.g. Japan, South Korea). See Figure 1 and 2.
40. The targets would be aligned to a suitable foreign jurisdiction to ease regulatory burden and improve confidence that targets are achievable. Australia is the most logical market to align with given our geographical proximity, regulatory alignment (cars approved for sale into Australia can generally be lawfully sold here), and several similar market dynamics (such as the popularity of diesel utes). Combined New Zealand/Australian targets help build supply and model choice for zero and low emission vehicles.
41. Stronger and weaker targets, and alignment with other markets, were considered but are not recommended. For example, the strong targets adopted by U.K. are plausible for distributors of new cars, with further government interventions, but these targets are too stringent for our commercial vehicle market that is dominated by utes, and for our used car import market. These market segments are different to those in the U.K.
42. Alignment with the U.K. could be viable longer term, if utes and used cars were to become widely available here as EVs. This would better support achieving our net zero CO₂ 2050 target. Alignment with Japan is not appropriate because our vehicle industry can achieve higher levels of ambition than what Japan has legislated. See *Figures 1 and 2* below for a comparison of targets.
43. Alignment with Australia will be sufficiently stringent to maximise reductions in CO₂ emissions and motoring costs, while still enabling a continuous supply of affordable low-emission vehicles for consumers.

Option 2 supports the primary policy objective (effectiveness) but does not support the secondary objectives (equity, efficiency, compliance)

44. The vehicle industry supports these targets but notes difficulties in achieving the targets for some sub-sectors. Industry forecasts show that at different points in time, some importers and some market segments would be ahead, or behind, the targets, even with the flexibility measures such as CO₂ credit trading. Costs are likely to be unavoidably placed on parts of the market. This is particularly the case for importers of small used cars and utes, both of which are large market segments. This rises equity and fairness concerns for these market segments. While Option 2 supports the primary

objective related to reducing emissions, it does not effectively support the secondary objectives.

45. Table 1. Current and targets proposed under Option 2:

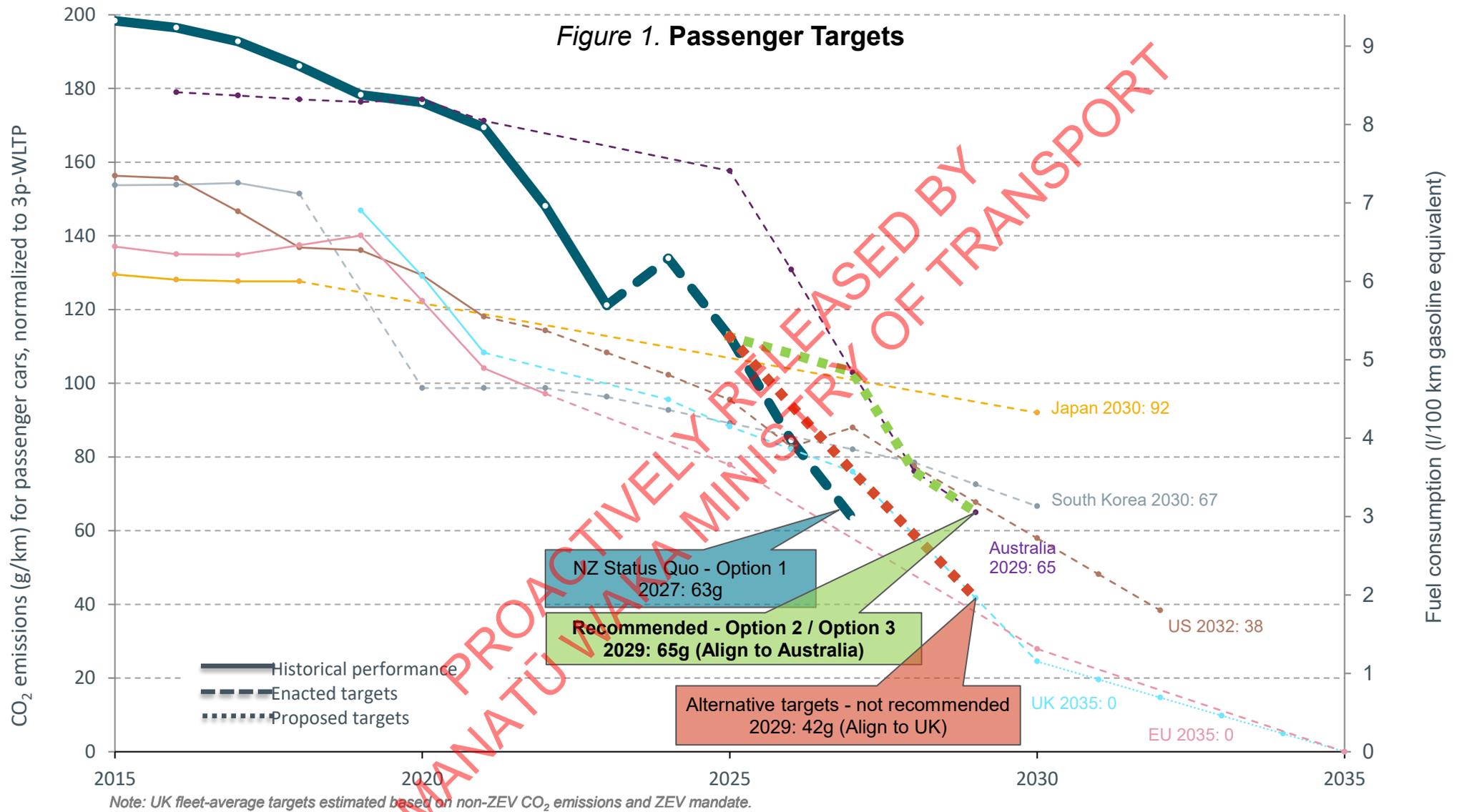
| Year | Targets for passenger vehicles (cars and SUVs) - gCO ₂ /km | | Targets for commercial vehicles (vans, utes, light trucks) – gCO ₂ /km | | | | | |
|---|---|-----|---|-----|----------------|-----|-----------------|-----|
| 2023 and 2024 actual CO₂ emissions achieved by importers vs targets | | | | | | | | |
| 2023 | 121 Outperformed the target of 145 | | 238 Did not achieve the target of 218.3 | | | | | |
| 2024 YTD ⁵ | 144 Target is 133.9 | | 237 Target is 201.9 | | | | | |
| Future targets and percentage annual reduction | | | | | | | | |
| | Current | | Proposed | | Current | | Proposed | |
| 2025 | 112.6 | 16% | No change (112.6) | | 155 | 23% | 223 * | 7% |
| 2026 | 84.5 | 25% | 108 | 4% | 116.3 | 25% | 207 * | 7% |
| 2027 | 63.3 | 25% | 103 * | 5% | 87.2 | 25% | 175 * | 15% |
| 2028 | Not set | - | 76 * | 26% | Not set | - | 144 * | 18% |
| 2029 | Not set | - | 65 * | 14% | Not set | - | 131 * | 9% |

* Cells marked with an asterisk are matched to the Australian targets. Note that Australian legislation uses different CO₂ units (NEDC) so these figures have been converted to the units used in New Zealand (3pWLTP) using a formula provided by The ICCT for New Zealand's use.

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

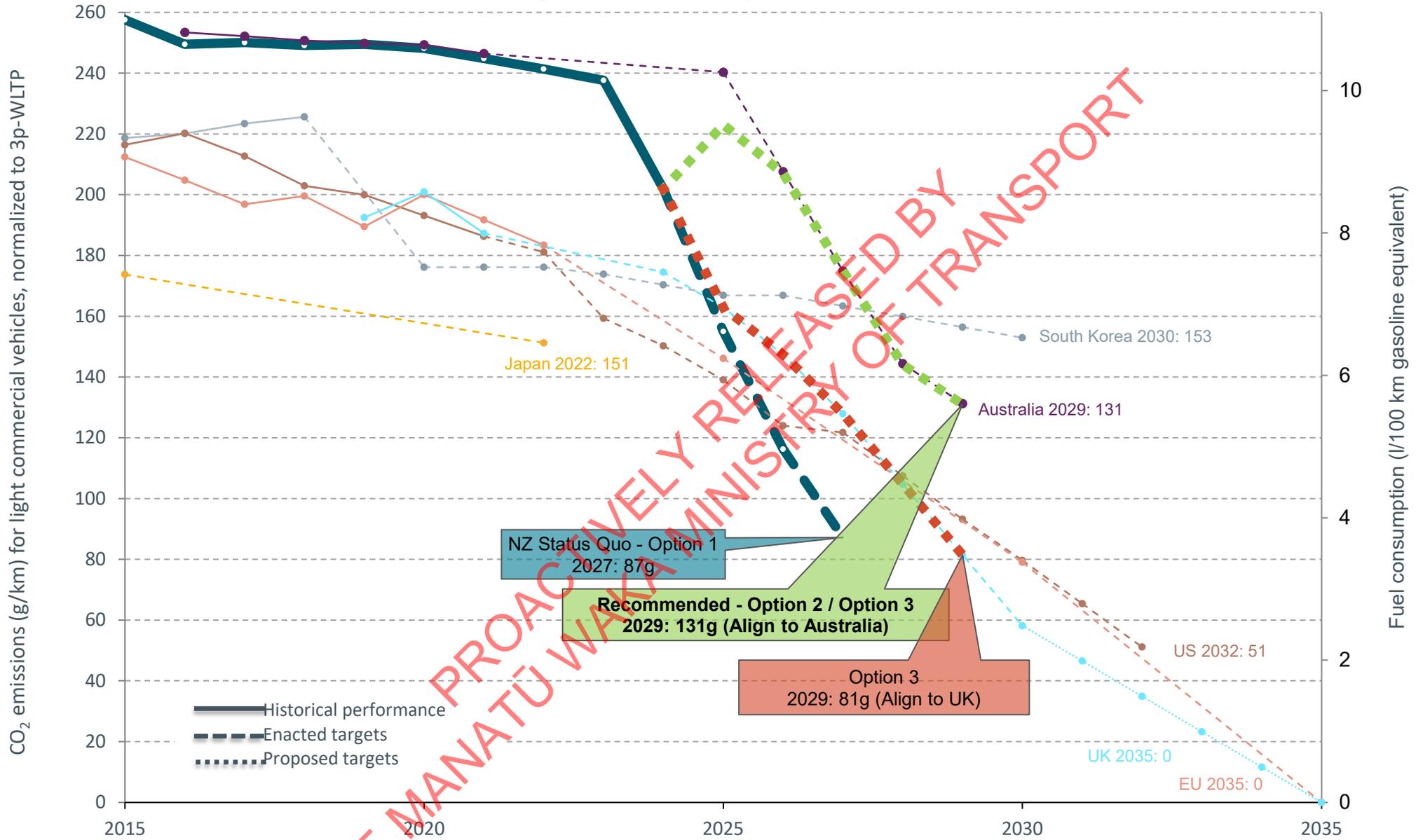
⁵ January to April 2024 year to date progress.

Comparison of current and proposed New Zealand targets with those enacted in other major automotive markets.



<https://theicct.org/pv-fuel-economy/>
Updated April 2024

Figure 2. Light commercial Targets (vans and utes)



Note: UK fleet-average targets estimated based on non-ZEV CO₂ emissions and ZEV mandate.

<https://theicct.org/pv-fuel-economy/>
Updated April 2024

Option 3 – Reset the targets to be achievable while still ambitious, and make technical changes to the Standard’s flexibility measures (preferred option)

46. Supporting both the primary and secondary policy objectives (refer paragraph 28–29) relies on addressing the equity and fairness limitations in Option 2. Doing so will ensure targets would not have to be weakened. This can be achieved by building on Option 2 with several technical solutions, as summarised below.

| Items to address | Technical solutions |
|--|--|
| <p>Address the risk that the Standard unfairly penalises used-vehicle imports.</p> <p>Address the risk that the Standard unfairly penalises importers and buyers of utes</p> <p>Support objective of “Achievable for vehicle importers”.</p> <p>Support objective of “measured to ensure the vehicle market supplies New Zealand consumers with a sufficient volume and range of affordable vehicles that meet their needs”</p> <p>Support objective of “effective over time causing vehicle importers to continuously source better vehicles with lower CO₂ emissions and running costs”</p> | <p>Phasing out weight-adjusted targets for light passenger vehicles</p> <p>Changing how the 2025 and 2026 weight-adjusted targets are calculated</p> <p>Removing the current restriction⁶ on credit transfers between new and used vehicle importers</p> <p>Increasing the minimum and maximum weights that limit the amount of weight-adjusting that is done to the annual targets for commercial vehicles</p> <p>Extending the lifespan of CO₂ emission credits (existing and future) from three to four years.</p> <p>Extending the use of borrowing, beyond 2025</p> <p>Have a review of the targets every 2 years beginning 2026.</p> |

Changing how targets are calculated

Phasing out weight-adjusted targets for light passenger vehicles

47. Targets are weight-adjusted so that heavier vehicles have higher targets.
48. Until recently, there has been a strong positive linear relationship between weight and CO₂ emissions. However, as the share of imported EVs and hybrids increases to reach a certain level, the linear relationship between vehicle weight and CO₂ emissions breaks down. At this point, there will be no rationale to weight-adjust the targets. Instead, targets would be uniform.
49. New Zealand came close to that point in 2023 when EVs and hybrids outsold petrol and diesel vehicles for the first time came close to this point in 2023 for passenger vehicles. A regression of the vehicle registrations found only a very weak relationship between vehicle weight and CO₂ emissions. This weak relationship was caused by the share of internal combustion vehicles in vehicle imports falling to 46.1% for new vehicles and 41.6% for used-imports.
50. Under Option 3, uniform targets would apply to passenger vehicles from 2027, subject to 2025 vehicle registration data showing no material linear relationship between vehicle weight and CO₂ emissions. This would simplify the Standard and lower industry compliance and government administration costs.

⁶ Section 180(3) of the Land Transport Act provides that “No transfer may be made... between a carbon dioxide account relating to new vehicles and a carbon dioxide account relating to used vehicles.”

51. Uniform targets for commercial vehicles will be several years away as there are no new EV utes available on our market and hybrid utes are only being introduced this year.
52. It is critical to stop weight-adjusting targets when there is no linear relationship to prevent heavier vehicles being advantaged with easier targets. This advantage would distort the vehicle market. Specifically, importers with a market offering with relatively more heavier vehicles than lighter ones would be able to import a greater number of high emitting vehicles without facing charges. They would also be able to earn more emission credits for meeting their targets than their competitors. These credits can be used to offset future target under-achievement, or be transferred to other importers for financial gain.
53. Used vehicle importers would be more disadvantaged than the new vehicle sector if weight-adjustment continued longer than it should. This is because used importers tend to supply vehicles that are lighter than the average new vehicle entering the fleet.

Changing how the 2025 and 2026 weight-adjusted targets are calculated

54. Regulations specify the formula and data that must be for used to weight adjust the targets. For 2025 and 2026 it requires 2023 vehicle registration data to be used to set the weight-adjustments for 2025 and 2026. However, these registrations are atypical because the decision to end the Clean Car Discount brought forward and increased the registrations of passenger EVs and hybrids.
55. If 2023 data is used the weight-adjusting slope for the formula of 0.0036 will apply. This will cause very close to uniform targets to be in effect, which will significantly disadvantage new vehicle distributors.
56. Instead, the weight-adjusting formula for passenger vehicles for 2025 and 2026 would be amended to use 2021 and 2022 vehicle registrations to determine the slope of the weight-adjusting formula for 2025. These registrations have a slope of 0.0457. The slope for 2026 would be set by reducing the 2025 slope by 25% to give a slope of 0.0343. A 25% reduction was proposed by the vehicle industry and is acceptable to both new and used vehicle importers.
57. As there is still a strong relationship between vehicle weight and CO₂ emissions for commercial vehicles, the current formula would remain.

Increasing the minimum and maximum weights that limit the amount of weight-adjusting that is done to the annual targets for commercial vehicles

58. While vehicles are adjusted by weight, minimum and maximum weights apply to avoid small vehicles facing overly stringent targets and heavier vehicles overly weak ones.
59. Passenger vehicle weight limits remain appropriate. However, commercial vehicle weight limits are too low and inadvertently increase the stringency of the targets. About a third of commercial vehicles sit above the maximum, so are unfairly subject to stricter than intended targets. In part, this is because the average weight of commercial vehicles has risen⁷. To address this, from the start of the 2025 the:
 - minimum weight would rise from 1,200 kg to 1,600 kg. Vehicles at and below 1,600 kg would attract the same target (around 600 per year, based on 2023 imports).
 - maximum weight would rise from 2,200 to 2,300 kg. Vehicles at and over this 2,300 kg would attract the same target (around 16%, based on 2023 imports).

⁷ Average weight rose approximately 100kg from 1999kg in 2019-2020 to 2098kg in 2023.

Enhancing the Standard's flexibility measures

Extending the lifespan of CO₂ emission credits (existing and future) from three to four years.

60. Credits are earned on any vehicle that is below the relevant target. Extending their lifespan to four years will increase the credit buffer importers have to cover any future target underachievement.

Extending the use of borrowing (this is called "payment obligation deferral") beyond 2025

61. Importers who do not achieve their annual target can make up the under-achievement the following year by over-achieving the subsequent year's target by an equal amount. This flexibility measure only applies to importers that comply on an annual basis (some importers comply throughout the year on a vehicle-by-vehicle basis). Currently, this provision is only available until 2025

Removing the current restriction on credit transfers between the new and used-import sectors with a 2026 start date for transfers.

62. This would take forward the VIA's proposal to enable credit transfers at an "exchange rate" of two for one (i.e. a credit earned on a new vehicle would be worth twice as much as one earned on a used-import). The MIA also supports this approach.

Having a review of the targets every two years, starting 2026

63. Legislation currently requires a single review to occur, in 2024. Under Option 3, the next review would be set for 2026 and would be repeated every two years. The government would still be able to review and amend targets through regulation at other times if necessary.

Impact of emissions compared to without the Standard

64. Our updated modelling estimates that the current targets would reduce gross GHG emissions by 10.1–10.8 Mt CO₂-e for 2022 to 2050, noting that these targets are unlikely to be achieved. Consequently, the emission reduction potential may be difficult to realise as the charges for non-achievement of targets will flow-through into increased vehicle prices encouraging people to hold onto their older emissions intensive vehicles for longer.
65. The modelling suggests that Option 3 would reduce gross GHG emissions by around 8.2–9.6 Mt for the same period. As the Option 3 targets are more achievable, they are less likely to result in charges being imposed across the vehicle industry. This will make the estimated 8.2–9.6 Mt CO₂-e emission reduction potential less difficult to realise.
66. The impact on emissions is less than the reduction in the targets suggest, as the current targets are not expected to be met, and other changes will partly offset and improve emission reductions (such as the changes to weight adjustment).
67. The technical changes to flexibility measures are not expected to materially impact overall emission reductions. This is because any under performance in one area must be offset by over achievement through time, or by another importer.

How do the options compare to the status quo/counterfactual?

| | Option 1 – Status Quo | Option 2 – Reset the targets to be achievable while still ambitious | Option 3 – Reset targets, plus improvements to remove inequities (<i>preferred</i>) |
|---|---|--|---|
| Effectiveness <i>The extent to which the option accelerates the transition to a low emission vehicle fleet, while doing so in a durable, stable way.</i> | <p>0</p> <p>Attempts a very rapid transition. Several targets are stricter than all major markets globally (except only Norway).</p> <p>However, as the targets do not appear achievable by industry, the shift to a low emission fleet is likely to occur slower than what this option seeks. Unobtainable targets risk becoming punitive for industry and could destabilise the policy.</p> | <p>+</p> <p>Attempts a rapid transition; slightly behind lead jurisdictions, at the same speed as Australia, but faster than Japan and what would happen in NZ without targets.</p> <p>However, as targets do not appear achievable by specific parts of the industry, the shift to a low emission fleet is likely to occur slightly slower than what this option seeks.</p> | <p>+</p> <p>Attempts a rapid but achievable transition; slightly behind lead jurisdictions, at the same speed as Australia, but faster than Japan and what would happen in NZ without targets.</p> <p>Targets are achievable and supported by the vehicle industry as a whole, including several challenging subsegments. This promotes the durability and stability of the policy. If supply and demand constraints resolve faster than anticipated, this option may fail to realise potentially stronger emission reductions. A policy review in 2026 mitigates this risk by enabling more ambitious targets to be set if they were achievable.</p> |
| Equity and Fairness <i>The option increases equity and fairness in the shift to low emission vehicles</i> | <p>0</p> <p>Importers and consumers in specific market segments that lack zero emission products (including utes and affordable small cars) are not treated fairly because their CO₂ targets cannot be achieved, even using CO₂ credit transfers or flexibility mechanisms.</p> | <p>0</p> <p>Importers and consumers in specific market segments that lack zero emission products (including utes and affordable small cars) are not treated fairly because their CO₂ targets still cannot be achieved, even using CO₂ credit transfers or flexibility mechanisms.</p> | <p>+</p> <p>Equitable and fair for consumers and importers as a whole, and for most sub-segments, due to improvements in how CO₂ credits can be used.</p> <p>For example, the new vehicle sector can support the used sector to avoid missing targets through CO₂ transfers, overcoming the potential lack of used EVs.</p> |
| Efficiency <i>The option minimises increases in vehicle prices, disruptions to vehicle supply and demand, and reduced safety specifications and other desirable features of vehicles.</i> | <p>0</p> <p>Almost all vehicles will soon be subject to increased costs and constraints. That would impact consumers in terms of price rises, or downgrade in volume or specification.</p> | <p>+</p> <p>Vehicles in certain large segments of the market would soon be subject to increased costs and constraints. That would impact consumers in terms of price rises, volume reduction, or specification downgrades.</p> | <p>++</p> <p>The reset targets and additional flexibility mechanisms should enable importers to avoid incurring costs, while still requiring vehicle importers to continuously source vehicles with lower CO₂ emissions and running costs. Consumers should benefit from affordable prices, choice of models, and maintained quality of vehicles.</p> |
| Compliance and risk. <i>The option lowers compliance costs and reduces regulatory risk.</i> | <p>0</p> <p>Importers face significant costs and risks as many are not able to achieve the targets.</p> | <p>+</p> <p>Regulatory risk is lowered under this option, but still may be significant for certain importers specialising in certain sectors (utes; affordable small cars).</p> | <p>++</p> <p>Industry states policy is achievable, suggesting compliance and regulatory risk is much lower.</p> |
| Overall Assessment | <p>0</p> | <p>3</p> | <p>6</p> |

Key for qualitative judgements:

++ much better than doing nothing/the status quo/counterfactual
 + better than doing nothing/the status quo/counterfactual

0 about the same as doing nothing/the status quo/counterfactual
 - worse than doing nothing/the status quo/counterfactual
 -- much worse than doing nothing/the status quo/counterfactual

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

68. Option 3 is preferred. This is because it best balances reducing CO₂ emissions and motoring costs, while still enabling a continuous supply of affordable low-emission vehicles for consumers. Option 3 is preferred over Option 2 as it reduces the risk of inequities for some importers and consumers. It best supports the objectives and assessment criteria.
69. There is a risk under Option 2 and 3 that the 2027-2029 targets are too easy if supply and demand constraints resolve faster than anticipated. To mitigate this, the targets will be reviewed in 2026, allowing the 2027, 2028, and 2029 targets to be more ambitious creating the potential for larger reductions in CO₂ emissions and motoring costs to be realised.

Industry view and response

70. Key vehicle industry stakeholders (the MIA, VIA, Automobile Association, and the Motor Trade Association) were provided policy details to comment upon. Their views were used to shape the final form of Option 3.
71. The MIA and VIA support Option 3, except for the timing of *when* weight-adjusted targets should be phased out in favour of uniform targets for passenger vehicles. The VIA seeks 2025 whereas the MIA seeks 2029, hence a recommendation to proceed with this in 2027, subject to a review in 2026. The Automobile Association and Motor Trade Association support Option 3.

What are the marginal costs and benefits of the option?

72. The Standard will deliver net positive benefits across a range of factors including reduced energy costs, improved air quality through reduced noxious emissions, and reduced GHG emissions to support achievement of New Zealand's climate commitments. With the status quo, the Standard has a net present value of \$1,158–\$1,268 million compared to a scenario without the Standard.
73. Option 3 makes changes to the Standard that reduce the scale of the potential benefits. It has an associated net present value of \$996–\$1,136 million compared to a scenario without the Standard. The marginal impact of Option 3 is a reduction in the net present value by \$132–\$162 million. While the net present value is lower, Option 3 is preferred because its settings are more achievable than the status quo and it will provide greater certainty that the Standard's benefits will be delivered.
74. A key change since we originally modelled the Standard is that our estimate of GHG benefits has significantly increased. This reflects our updated modelling approach that incorporates information provided by the vehicle industry on their forward purchasing plans and global trends.
75. Under our previous model for the Standard we estimated gross CO₂-e emission reductions of 4.1–5 megatonnes (Mt) to 2050⁸.
76. Our new modelling finds that the current settings under the Standard would deliver around 10.1–10.8 Mt CO₂-e emission reductions⁹, noting that the current targets under the Standard are unlikely to be achieved. The Option 3 settings, which are more achievable than current settings, are estimated to deliver 8.2–9.6 Mt CO₂-e. This is a greater level of gross

⁸ For the projected gross emissions abatement, for the 'previous modelling', the lower end of the range represents our previous 'base case low emission vehicle uptake scenario' and the upper end of the range represent our previous 'fast low emission vehicle uptake scenario'.

⁹ For the projected gross emissions abatement, for the 'updated modelling', the lower end of the range is based on projected low emission vehicle uptake under a 'global trend scenario' and the upper end of the ranged is based on a projected low emission vehicle uptake under a 'industry view scenario'

reductions than our original estimate of the Standard with its current settings. Both of these estimates compare to the scenario without the Standard.

77. The table below sets out the marginal benefits and costs of the Option 3 changes to the Standard (i.e. comparing to Option 1). A table setting out the total costs and benefits of Option 1 versus Option 3 is in Appendix 1.

| Affected groups <i>(identify)</i> | Comment <i>nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.</i> | Impact <i>\$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.</i> | Evidence Certainty <i>High, medium, or low, and explain reasoning in comment column.</i> |
|---|---|--|--|
| Additional costs of the preferred option compared to taking no action | | | |
| Maintenance costs | Cost of increased maintenance | \$30m to \$31m | Low: Relatively weak data |
| Energy costs | Cost of increased energy costs (fuel/electricity) | \$241m to \$362m | High: Robust data |
| GHG emissions/ mitigation costs | Cost of decrease in GHG emissions | \$94m to \$145m | Medium: Somewhat robust data |
| NOX emissions costs | Cost of increased NOX emissions | \$59m to \$90m | Medium: Somewhat robust data |
| Total monetised costs | In 2023 discounted dollar terms | \$424 to \$628m | |
| Non-monetised costs | Most of the significant costs and benefits have been included in the modelling | Low | |
| Additional benefits of the preferred option compared to taking no action | | | |
| Cost to industry | Benefit to industry from reduced cost from sourcing fewer low emissions vehicles | \$14m to \$15m | Low: Relatively weak data |
| Welfare loss | Benefit to wider economy from reduced application of charges (Government intervention) aka dead weight loss | \$19m to \$30m | Low: Relatively weak data |
| Vehicle cost | Benefit from lower total upfront purchase cost of vehicle imports (low emissions vehicles cost more to purchase on average) | \$260m to \$421m | Medium: Somewhat robust data |
| Total monetised benefits | In 2023 discounted dollar terms | \$293 to \$466m | |
| Non-monetised benefits | Most of the significant costs and benefits have been included in the modelling | Low | |
| Total monetised benefits/(costs) | NPV (Net present value) = Total benefits less total costs | (\$132m to \$162m) | |

Estimates provided for this table are based on recently updated data (June 2024) and replace previous estimates based on more dated input data and assumptions. These updated estimates are an improvement on previous modelling but there remains a high level of uncertainty.

The table provides estimates of two scenarios, one aligned with industry projections and one aligned with global projections. These estimates only consider the uncertainty around EV uptake. Consequently, they only estimate a portion of the total uncertainty.

Section 3: Delivering an option

How will the new arrangements be implemented?

78. The preferred option relies on making legislative amendments and changes to technical systems and procedures. Because no significant new legislation or systems are necessary, we consider risks of delay and delivery to be reasonably low.
79. Amendments would be needed to:
- The Land Transport Act 1998
 - Land Transport Management Act 2003.
 - The Land Transport (Clean Vehicle Standard) Regulations 2022
80. Amendments would be focused on revising CO₂ targets, adjusting flexibility mechanisms, prescribing passenger vehicle slopes for 2025 and 2026, and setting the review dates. The amount of legislative text to be amended is relatively small.
81. The legislative change could be done either in a single or a two-step process. This is because while changing CO₂ targets would require legislative and regulatory changes in 2024, most of the remaining policy changes are not needed until 2026, meaning the legislative change for them could plausibly be done later.
82. Implementation of the policies would require adjustment to NZ Transport Agency Waka Kotahi (NZTA) systems that are operating today. NZTA has advised that it could implement these enhancements during 2026. The vehicle industry has advised it is comfortable with that timing.
83. § 9(2)(f)(iv) 

How will the new arrangements be monitored, evaluated, and reviewed?

84. A monitoring and evaluation framework is already set up and will continue.
85. The Ministry of Transport and Waka Kotahi prepare and publish monthly reports on the policy, to enable public interest and discourse on the policy:
- www.transport.govt.nz/statistics-and-insights/fleet-statistics/sheet/light-motor-vehicle-registrations
 - www.nzta.govt.nz/vehicles/clean-car-programme/clean-car-standard/clean-car-standard-credit-reports/
86. The preferred option sets out that there will be two-yearly reviews of the Standard, with the next scheduled for 2026. This would review both any targets that have been set, plus enable additional targets to be set for years further into the future, plus resolve other matters as necessary (e.g. the transition away from weight-adjusted targets).

Appendix 1 - Total costs and benefits of status quo (Option 1) versus Option 3

| Affected groups | Comment | Previously estimated impact: current settings (Option 1) | New estimated impact: current settings (Option 1) | New estimated impact: Option 3 settings | Evidence Certainty |
|--|--|--|---|---|------------------------------|
| Additional costs compared to counter-factual (no Standard) | | | | | |
| Cost to industry | <i>Increase in sourcing cost of vehicles</i> | \$20m | \$72m to \$85m | \$57m to \$70m | Low: Relatively weak data |
| Welfare loss | <i>Dead weight loss from application of charges</i> | \$38m | \$116m to \$125m | \$87m to \$106m | Low: Relatively weak data |
| Vehicle cost | <i>Cost from higher purchase cost of vehicles</i> | \$1,058m | \$1,732m to \$1,786m | \$1,365m to \$1,473m | Medium: Somewhat robust data |
| Maintenance costs | <i>Increase in maintenance costs</i> | | \$39m to \$100m | \$70m to \$131m | Low: Relatively weak data |
| Total monetised costs | <i>In 2023 discounted dollar terms</i> | \$1,116m | \$2,014m to \$2,041m | \$1,578m to \$1,780m | |
| <i>Non-monetised costs</i> | <i>Most of the substantive costs have been included</i> | <i>Low</i> | <i>Low</i> | <i>Low</i> | |
| Additional benefits compared to counter-factual (no Standard) | | | | | |
| Maintenance costs | <i>Decrease in maintenance costs</i> | \$163m | | | Low: Relatively weak data |
| Energy costs | <i>Decrease in energy costs (fuel/electricity)</i> | \$793m | \$1,886m to \$1,963m | \$1,525m to \$1,723m | High: Robust data |
| GHG emissions/mitigation costs | <i>Decrease in GHG emissions</i> | \$358m | \$786m to \$808m | \$640m to \$714m | Medium: Somewhat robust data |
| NOX emissions costs | <i>Decrease in NOX emissions</i> | \$183m | \$499m to \$539m | \$409m to \$480m | Medium: Somewhat robust data |
| Total monetised benefits | <i>In 2023 discounted dollar terms</i> | \$1,497m | \$3,171m to \$3,310m | \$2,574m to \$2,916m | |
| <i>Non-monetised benefits</i> | <i>Most of the substantive benefits have been included</i> | <i>Low</i> | <i>Low</i> | <i>Low</i> | |
| Total monetised benefits/costs | NPV (Net present value) = Total benefits less total costs | \$381m | \$1,158m to \$1,268m | \$996m to \$1,136m | |