



24 February, 2010

Briefing Note for Hugo Group: Post-2012 Climate Change Roundtable

Overview

Regardless of outcomes, or lack thereof, from the Copenhagen meetings, the new car sector supports a NZ “clean, green” philosophy and is getting on with the job of emissions reduction, irrespective of regulations. This is brought on by existing agreements in the major car producing countries of EU, Japan and Korea. Open points still USA/China to some degree.

The New Zealand industry is complex because:

- New Zealand is unique in the developed world in allowing unabated used vehicle imports
- There is no one, single body to represent the transport industry e.g. MIA, MTA, AA, IMVDA all represent different interests
- Alternative travel solutions are not yet an adequate standard to reduce passenger car usage (infrastructure issues)
- We are ‘technology-takers’ i.e. we do not produce cars in New Zealand

New Zealand should not attempt to design its own system for emissions reduction that is contradictory to those of other nations.

The international picture

- Overseas, it is the new car manufacturers who are designing and agreeing with Government appropriate regulation for fleet emissions reduction.
- A ‘burden-sharing’ approach has been agreed whereby every manufacturer must improve, using a weight-based calculation with graduated penalties
- The European, Japanese and Korean manufacturers have all agreed on a complimentary system with the USA/China being ‘late to the party’.
- There is significant cost associated with new, fuel-saving technologies.

The local issues

As technology-takers, we benefit from technology improvements and overseas regulation as new cars enter the fleet, BUT... **Regulation of the new car industry alone will not have the same effect here as it does in other countries.**

- Over the last decade, used car imports have outnumbered new car imports causing the average age of the vehicle fleet to be particularly old, and the age will only get worse based on current car parc composition
- Therefore, regulating new car imports fails to address the whole problem; any legislation must address the total fleet in NZ, regardless of age, category, and.....
- Given the lack of a collective body, clear agreement from an industry perspective will be difficult to achieve



- There has been lack of consistency to date e.g. New car manufacturers are already factoring in EU5/EU6 safety and emission regulations into new model programs. In NZ the local legislation called for adoption of EU3 or better, regulations from 2009. However pressure from the IMVDA resulted in Transport NZ relaxing the standards for ex-Singapore used cars from EU3 to EU2- so again we go backwards

The case for used car imports

- In 1990s we had local CKD inefficiencies and perceived high prices, but this is also linked to high tariffs and duties etc
- This is no longer the case; 'NZ New' can more than meet used car demand, and as with most first world economies, used car imports do not occur
- The pricing of new vehicles in the world is very transparent, and consumers in NZ have access to very cheap vehicles by international standards
- We also have very high depreciation, caused by continued oversupply of used cars, and this causes unnecessary losses and higher cost of ownership levels for NZ consumers- there are no winners in this
- Older imports will continue to delay the adoption of the newer technologies, which in turn affects fleet efficiency and the amount of fuel produced, and therefore carbon/ GHG emissions

Behavioural changes will only come from an impact on people's wallets. Therefore, some simple options exist:

- Increase vehicle registration fees based on fuel economy / emissions ratings (EECA already has a regime in place for rating cars)
- Increase carbon tax at the pump to ensure capturing of all vehicles in the fleet, and not just aimed at new vehicles entering the fleet- user pays scenario (Fuel taxes under the new ETS will not be sufficient. A \$1 per litre increase is required to shift behaviour).
- This could be included with tax relief for consumers, thus encouraging them to consider alternative transport solutions, if they don't want to pay the higher pump prices.

The MIA is working on a voluntary reduction target for manufacturers and complimentary measures to encourage fuel efficient vehicles. Considerations are:

- The challenge of remaining profitable while introducing new technologies
- The need for a tax at the pump in order to focus on reducing emissions from the total fleet



To sum up, our message is simple:

What counts is the implementation of consistent, clear, long term, reliable, non-distortive instruments which support the investment into fuel saving technologies by manufacturers and support customer choice for efficient vehicles. In other words supplying some certainty, whereby growing NZ Inc is supported by regulations that will assist with exporting NZ goods and services, based on a competitive and clean transport sector. Additionally, export income from tourism can only benefit if visitors are transported around our beautiful country in modern, state of the art buses, rather than the dirty old used imports they experience now! The time to act is now.

Supplementary information:

Summary of the European system:

- Each manufacturer has their own target with heavier vehicles allowed higher emissions than lighter vehicles while preserving the overall fleet average i.e. cars of all sizes are required to improve.

Targets set are:

- New passenger cars 130g CO₂ /km by 2012
- New passenger cars 95 g CO₂ /km by 2020
- New vans 175g CO₂ /km by 2013 – with proposal for 135g/km by 2020
- The CO₂ target is phased-in under which each manufacturer must have a set percentage of their vehicles comply: in 2012, 65% of each manufacturer's newly registered cars must comply on average with the limit value curve set by the legislation. This will rise to 75% in 2013, 80% in 2014, and 100% from 2015 onwards.
- Graduated penalties will apply from 2012
- From 2019 the penalty will be at a flat rate of €95 per gram/km
- Manufacturers are able to group together to form a pool which can act jointly to meet the specified emissions target
- Super credits apply for vehicles with a CO₂ calculation of less than 50g/km starting at 3.5 cars in 2012 and reducing to 1.5 cars in 2015; where after the vehicles will count as only one car.

The key aim of EU policy is to avoid distortions for the sake of economic and social fairness, so all segments must contribute to the reduction effort.

Complementary measures in Member States' domestic policies:

EU member states are also implementing complimentary measures. In the case of Germany:

- The Federal Government's annual registration fee now consists of a base tax and a CO₂ tax.
- The rates of the base tax are €2 per 100 cc (petrol) and €9.50 per 100 cc (diesel) respectively.
- The CO₂ tax is linear at €2 per g/km. Cars with CO₂ emissions below 120 g/km are exempt.

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