<u>Annotated Agenda for Climate Change Ministers Meeting – 4 May 2021</u>

Background to the Clean Car Discount

1. The Clean Car Discount (the Discount) will help new and used car buyers overcome the higher upfront cost of low-emission vehicles compared to internal combustion engine vehicles.
2. The Discount will complement the Clean Car Standard (the Standard), which was agreed to by Cabinet in January 2021. The Standard regulates the supply of low-emission vehicles, while the Discount will encourage demand towards electric or low-emission vehicles. The Discount is modelled closely on policy from countries that have significantly driven the uptake of low-emission vehicles.
3. The Emission Trading Scheme and the Standard will not resolve the high up-front cost barrier to buying electric vehicles, which is expected to persist for most of the 2020s. The Discount will close this price gap significantly but not eliminate it. Further measures will be needed to enable access to low-emissions transport options for lower-income households and others facing disadvantages in accessing transport.

Cabinet has agreed to progress the Clean Car Discount, but specific decisions are still to be made

4. On 19 April 2021 Cabinet agreed to progress the Discount [CAB-21-MIN-0128.01]. Cabinet invited me to report back to DEV with proposals on the remaining design decisions.
5. This meeting of the Climate Change Response Minister's Group will consider the outstanding decisions to be made. The decisions of the Group will feed into the Cabinet paper that I will take back to DEV.
6. The outstanding decisions, as noted in the Cabinet minute are:
   - (21.1) the level of the rebate to be issued on zero and low-emission vehicles from 1 July 2021;
   - (21.2) the maximum CO_2 fee for 2022;
   - (21.3) the full schedule of rebates and fees based on vehicle CO_2 emissions (including the CO_2 emissions levels that enable some vehicles to receive neither discounts nor fees) that would apply during the 2022 year (using at least two months' worth of data arising from rebates being available in the vehicle market in order to inform Cabinet's decisions);
     - *While Cabinet agreed that officials would analyse vehicle sales data from July and August, and report back, this can be discussed and finalised sooner if wished.*
   - (21.4) purpose-based exemptions or discounts on the fees payable on vehicles that do not have feasible low-emissions alternatives, which would apply from 2022;
   - (21.5) the criteria that would exclude vehicles with poor crash worthiness from receiving discounts;
     - *Cabinet agreed that officials would work to determine these technical details and report back to me before 1 July 2021. This point is therefore not being discussed at this meeting.*
   - (21.6) any outstanding policy issues, if necessary.

Finalising the specific details of the Clean Car Discount

What level should the rebate be from 1 July 2021?

7. Officials recommend the following rebates be available from 1 July 2021:

	New Vehicle	Used Import
Battery electric vehicle *(Zero-emission)*	$7,500	$3,000
Plug-in hybrid electric vehicle *(Low-emission)*	$5,000	$2,000

8. The proposed level of rebate is based on reducing the current price differential between an electric vehicle and a high-emissions vehicle. This price gap is expected to reduce over the decade as batteries get cheaper and electric vehicle manufacture scales up. Fees and rebates will be reviewed regularly to ensure that the scheme remains fiscally neutral.

9. The modelling used to set initial rebate and fee levels considers effects of the Standard, the behavioural response to vehicle price changes, limiting fees to a level the market can currently bear, and setting the rebates to the maximum level possible (while enabling repayment of the loan within a prudent timeframe).

10. The proposed levels of rebate are in line with those proposed in public consultation. If we made the rebate smaller it would be less effective at influencing buyer behaviour. Officials also looked at what the modelling showed if you increase the rebate. For instance $10,000 was tested as the new vehicle rebate but it was found that such an increase would not materially persuade additional buyers in the short term, and, it could make it harder to repay the Crown loan to Waka Kotahi.

11. Internationally, feebate systems are usually updated every one to two years. Cabinet agreed that starting in 2023, and on a 24-month or more frequent basis, the nature of fees and rebates, together with other scheme design elements, would be reviewed and adjusted if necessary.

12. Cabinet agreed that rebates will be able to be applied for from 1 July 2021, as this will prevent car buyers from delaying the purchase of a new electric vehicle until the rebate starts. Also, the more quickly that rebates can be issued the sooner we will see progress in electrification of the New Zealand light vehicle fleet.

Agree:

a) the initial rebate be $7500 on new and $3000 on used import battery electric vehicles and $5,000 on new and $2,000 on used import plug-in hybrid electric vehicles from 1 July 2021.

What should the fee and rebate levels be set at for 2022?

13. While the rebate will begin from 1 July 2021, the fees cannot start until legislation is passed. As such, Cabinet agreed that in principle, for the 2022 year, the maximum CO_2 fee should be set to $3500 (plus GST). This fee may rise in subsequent years.

14. Adding fees to the purchase of a vehicle is a key aspect of the policy. Fees mean the scheme can operate as fiscally neutral over time. The fees fund the discounts and Waka Kotahi's operation.

15. As currently proposed, fees would rise for every gram of CO_2 a vehicle produces. This encourages any buyer to buy the lowest CO_2 vehicle they can.

16. Vehicle buyers and seller will want to know what the fees will be, when the policy is announced. This is because internationally fees on highly-emitting vehicles can be a lot higher than the amounts we are proposing.

17. The proposed $3500 fee would be a maximum. This means that many vehicles, including utes, will be available with CO_2 emissions that generate a fee of less than $3500 for 2022.

18. I propose the following indicative forward schedule of fees and rebates (larger version annexed):

NEW VEHICLES - Rebates and Fees applicable to New Vehicle Imports ($/vehicle)																	
	BEV	Plugin Hybrid			Hybrid		Fuel-efficient car				NZ Avg Car		Utes and high emission vehicles				
	Emissions Band (gCO2/km)																
	>0 - < 4	>4 - < 49	>49 - < 69	>69 - < 90	>90 - < 105	>105 - < 120	>120 - < 130	>130 - < 140	>140 - < 150	>150 - < 160	>160 - < 170	>170 - < 180	>180 - < 190	>190 - < 200	>200 - < 225	>225 - < 250	>250
2018																	
2019																	
2020																	
2021	-$7,500	-$5,560	-$4,420	-$3,560	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2022	-$7,500	-$5,560	-$4,420	-$3,560	$0	$0	$0	$0	$0	$0	$0	$460	$890	$1,440	$2,210	$3,310	$3,500
2023	-$4,500	-$3,340	-$2,650	-$2,140	$0	$0	$0	$0	$0	$0	$500	$960	$1,390	$1,940	$2,710	$3,500	$3,500
2024	-$2,700	-$2,000	-$1,590	-$1,280	$0	$0	$0	$0	$0	$500	$1,000	$1,460	$1,890	$2,440	$3,210	$3,500	$3,500
2025	-$1,620	-$1,200	-$950	-$770	$0	$0	$0	$0	$500	$700	$1,200	$1,660	$2,090	$2,640	$3,410	$3,500	$3,500
2026	-$970	-$720	-$570	-$460	$0	$0	$0	$500	$700	$980	$1,480	$1,940	$2,370	$2,920	$3,500	$3,500	$3,500
2027	-$580	-$430	-$340	$0	$0	$0	$500	$700	$980	$1,370	$1,870	$2,330	$2,760	$3,310	$3,500	$3,500	$3,500
2028	-$350	-$260	-$200	$0	$0	$500	$700	$980	$1,370	$1,920	$2,420	$2,880	$3,310	$3,500	$3,500	$3,500	$3,500
2029	-$210	-$160	-$120	$0	$500	$700	$980	$1,370	$1,920	$2,690	$3,190	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
2030	-$130	-$100	-$70	$0	$700	$980	$1,370	$1,920	$2,690	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
2031	-$120	-$90	-$60	$0	$980	$1,370	$1,920	$2,690	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
2032	-$110	-$80	-$50	$0	$1,370	$1,920	$2,690	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
2033	-$100	-$70	-$50	$0	$1,920	$2,690	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
2034	-$90	-$60	-$50	$0	$2,690	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
2035	-$80	-$50	-$50	$0	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500

USED VEHICLES - Rebates and Fees applicable to Used Vehicle Imports ($/vehicle)																	
	BEV	Plugin Hybrid			Hybrid		Fuel-efficient car				NZ Avg Car		Utes and high emission vehicles				
	Emissions Band (gCO2/km)																
	>0 - < 4	>4 - < 49	>49 - < 69	>69 - < 90	>90 - < 105	>105 - < 120	>120 - < 130	>130 - < 140	>140 - < 150	>150 - < 160	>160 - < 170	>170 - < 180	>180 - < 190	>190 - < 200	>200 - < 225	>225 - < 250	>250
2018																	
2019																	
2020																	
2021	-$3,000	-$2,030	-$1,460	-$1,030	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2022	-$3,000	-$2,030	-$1,460	-$1,030	$0	$0	$0	$0	$0	$0	$0	$460	$890	$1,440	$1,500	$1,500	$1,500
2023	-$1,800	-$1,220	-$880	-$620	$0	$0	$0	$0	$0	$0	$500	$960	$1,390	$1,500	$1,500	$1,500	$1,500
2024	-$1,080	-$730	-$530	-$370	$0	$0	$0	$0	$0	$500	$1,000	$1,460	$1,500	$1,500	$1,500	$1,500	$1,500
2025	-$650	-$440	-$320	-$220	$0	$0	$0	$0	$500	$700	$1,200	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2026	-$390	-$260	-$190	-$130	$0	$0	$0	$500	$700	$980	$1,480	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2027	-$230	-$160	-$110	$0	$0	$0	$500	$700	$980	$1,370	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2028	-$140	-$100	-$70	$0	$0	$500	$700	$980	$1,370	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2029	-$80	-$60	-$40	$0	$500	$700	$980	$1,370	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2030	-$50	-$40	-$20	$0	$700	$980	$1,370	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2031	-$50	-$40	-$20	$0	$980	$1,370	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2032	-$50	-$40	-$20	$0	$1,370	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2033	-$50	-$40	-$20	$0	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2034	-$50	-$40	-$20	$0	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500
2035	-$50	-$40	-$20	$0	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500

19. This indicative schedule will mean that in 2022:

    a. vehicles with tailpipe emissions of 0-90 grams CO_2 per kilometre will receive a subsidy of up to $7500 (electric vehicles and some hybrids)

    b. vehicles with tailpipe emissions of 91-170 grams CO_2 per kilometre will be unaffected (larger hybrids and most passenger cars and SUVs)

    c. vehicles with tailpipe emissions of over 170 grams CO_2 per kilometre will be charged a fee of between $460 and $3500 (utes, vans, and highest emission cars) Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982

[redacted]

21. The above schedule does not provide all hybrids with discounts; only the most-efficient ones. It could be possible include more of the hybrid market with discounts, if fees were raised or covered more of the market.

22. Cabinet agreed on 19 April that the 2022 fee and rebate schedule will be confirmed by Cabinet in September 2021, informed by initial sales data following the introduction of rebates.

Agree:

b) the maximum CO_2 fee for 2022 will be $3500, and indicative fee and rebate schedule for 2022 above, subject to decisions on concessions that may require overall fees to rise.

Note:

1. the full schedule of fees and rebates for 2022 will be confirmed by Cabinet in September 2021, informed by initial sales data following rebates starting

Should temporary exemptions to fees for some work vehicles be granted?

23. New Zealand has high levels of ownership of utes, which on average have very high levels of emissions. There are not yet any hybrid or electric options being sold in New Zealand, although these are expected to enter our market in the next one to two years.

24. While many utes are purchased for productive 'workhorse' use, the rapid acceleration of uptake is linked to their purchase for lifestyle reasons. Many popular new utes now sell for over $60,000, suggesting buyers would not be greatly sensitive to a fee of up to a few thousand dollars. The popularity of high-emission utes in New Zealand is incompatible with transport decarbonisation.

25. Some potential ute buyers may be able to instead buy lower-emission SUVs and vans instead of utes, given these are already available in hybrid and electric formats both in the new and used market. However, drivers with genuine need for 4WD or open-tray format vehicles will have little ability to avoid paying a fee. A decision needs to be made on whether charging owners of these vehicles a fee is considered an appropriate contribution to social costs, or whether some form of temporary and limited concession is justified.

26. The Ministry of Transport, Waka Kotahi and Ministry for the Environment recommend that no concession be given because of the emissions impact of utes, notwithstanding the lack of alternatives currently in the market. This also reflects the urgency with which we must all adjust in order to decarbonise transport. The Green Party has indicated it agrees with this view.

27. If a concession is applied, it should be time-bound, limited in scope, and limited in financial value. Any concession would reduce emissions reductions, reduce income to the Discount scheme and increase the initial deficit. It would also add significant complexity, be open to challenge and add a costly administrative burden.

If we choose to grant an exemption, I propose to scope it narrowly

28. My proposed approach for a concession is that the Government establish a discount or exemption regime for vehicles with no feasible low-emissions alternatives if they are purchased for a specific business purpose.

29. The limited option I am proposing is a 50 percent reduction to a fee to farm businesses purchasing utes for business reasons, for a limited time of between 12 and 24 months, and subject to certain conditions:

    a. the provision of a Farm Environment Plan (FEP)[1] to Waka Kotahi,

[1] A FEP is held by over 3000 farms today and is likely to be mandatory in coming years. It can be used as a proxy to identify a business as a farm, as there is no centralised database of farming businesses. This approach

b. the vehicle is below a prescribed CO_2 emissions level. One option is to establish a threshold which contains highly capable 4WD single and double cab utes that can tow 3000kg. Utes with emissions greater than this level would have to pay full fee; and

c. As utes become available in lower emission and zero emission vehicles, this CO_2 threshold would be lowered or the concession eliminated.[2]

30. There is some risk that farming businesses could buy multiple utes under a concession and sell them onto the wider public. Prescribing constraints on resale, as noted in the Cabinet paper, would be challenging and costly to enforce. We instead would look to rely on the Motor Vehicle Sales Acts 2003, which states that in order to sell more than six vehicles or import more than three vehicles per year, one must become a registered a licenced motor vehicle trader. We consider that clause to be a reasonable impediment against large-scale abuse of the concession.

We could also grant a broader exemption, although this will add complexity

31. A concession limited to utes for farm use will not be a particularly well-targeted intervention as some farm utes can be replaced with other vehicles and legitimate off-farm use cases for utes exist, e.g. some tradespeople. Extending an exemption beyond farm businesses would, however, become even more administratively complex, and likely involve a range of further subjective decisions about 'legitimate' use cases.

32. A broader exemption could include other professions, such as tradespeople, who require a ute for business purpose and cannot find a fit-for-purpose lower emission alternative. It would be very difficult for Waka Kotahi to judge who does and does not require a ute and so this would have to be via a self-declaration that they meet a particular definition of profession that is reliant on a utility vehicle. This option increases uncertainty around the short term revenue and cost profile of the scheme, and will make it harder to reduce CO_2 emissions given utes are very high CO_2 emission vehicles.

33. As a broader exemption would significantly increase the number of vehicles exempt from the scheme officials estimate this would require the fee on new and used vehicles to be increased by $1,000 (from $1,500 for used and $3,500 for new to $2,500 for used and $4,500 for new).

Agree:

c) a time-limited 50 percent fee reduction for brand-new utes, where they are purchased under specific conditions:

i. the ute does not breach a threshold CO_2 emissions level, which will be finalised as part of the full schedule of fees and rebates

ii. the exemption will be reviewed regularly alongside levels of fees and rebates, and will phased out after:

1. 12 months, **or**

2. 24-months.

iii. Applies either to:

also acknowledges that farms with FEP have work underway to manage environmental issues arising from their activities.

[2] Preliminary analysis suggests that this level would be around 200g CO_2/km (NEDC test) and would reduce, particularly when hybrid and electric utes are widely available.

1. Farm businesses that can produce a Farm Environment Plan (lower financial risk option) **or**
2. Any business that completes a self-declaration that they “Require a utility vehicle for farming or tradesperson business use and there is no fit for purpose zero or low emission vehicle alternative” (higher financial risk option, which would require maximum fees to rise by $1000 on both new and used vehicles)

OR

no temporary exemption be granted for utes, noting that there is a six month window between July and December 2021 where fees on utes are publicly known but not in effect.

GST treatment of fees and rebates

34. Officials from Inland Revenue, the Treasury, Waka Kotahi and the Ministry of Transport met in April to discuss implications and implementation details following the the Cabinet agreement that fees and discounts will be subject to GST. Inland Revenue noted this conformed to the treatment of other transport fees and other government grants and subsidies.

35. The Cabinet paper recommended certain rebate levels which were expressed as GST exclusive amounts. Inland Revenue recommends that the rebates should be grossed up by 15 percent to account for GST. This approach was agreed by Waka Kotahi, Treasury, and Ministry of Transport officials

36. Inland Revenue advise that it is necessary to gross-up the rebates because GST registered businesses buying work vehicles would need to return 15 percent GST on the rebates they receive from Waka Kotahi, the same as they would for other government grants. While private vehicle owners would not return GST on their rebates, they also need their rebates grossed-up by 15 percent so they are properly compensated for the extra GST they already incurred on the full retail price of the vehicle.

37. The gross-up does not require any amendment to legislation and is straight-forward to implement. It relies on asking buyers to confirm their GST status and responding with appropriate documentation when issuing the rebate. It will slightly increase the costs on the scheme, as Waka Kotahi can recover the GST on rebates issued to businesses but not to others. This is not modelled to materially change the timeframe for repaying deficits and can be accounted for in the level of fees and rebates in later years.

38. As noted in the Cabinet paper, all dollar figures in this document are exclusive of GST, and thus the actual rebates paid by Waka Kotahi will be 15 percent higher than written in this paper.

Note:

d) the rebate figures in the April 2021 Cabinet paper were expressed as exclusive of GST, so the actual amounts paid by Waka Kotahi will be 15 percent higher to account for GST.

Next Steps

39. In-principle decisions of this group will be reflected in a paper that I will take to the Economic Development Committee (DEV). I am currently working through timing decisions around when I can take this paper to DEV and when the Discount should be announced.

40. Before 1 July, myself and the Minister of Finance will also consider lending and borrowing approvals to enable necessary funding of this policy.

41. In September, I propose that I bring a paper back to this group to finalise the schedule of fees and rebates and related matters. Those decisions would then go to DEV for agreement.

Agree:
e) the Minister of Transport will bring a paper to the Climate Change Response Ministers Group in September 2021, to recommend a full schedule of fees and rebates for the Clean Car Discount to Cabinet.