



**Kia Motors New Zealand Limited Submission**

**August 2019**

Discussion Paper Impact Statement in response to:

**Ministry of Transport Discussion Paper – 9 June 2019**

*Moving the light vehicle fleet to low-emission: Discussion paper on a Clean Car Standard and Clean Car Discount*

Kia Motors New Zealand Limited contacts:

Greg MacDonald  
Marketing General Manager



Craig Buckley  
National Service Manager



Todd McDonald  
Managing Director



## 1. Introduction to Kia

Kia Motors New Zealand Limited, (KMNZ) – A technology leader in many fields, principally the design and build of fully electric, hybrid, mild hybrid and internal combustion powered vehicles for the young-at-heart. KMNZ is a subsidiary of Kia Motors Corporation, (KMC) which was founded in 2006. KMNZ sells approximately 7,000 new vehicles p.a. We service high quality, class leading vehicles including the Rio, Cerato, Niro, Sportage, Sorento and Stinger through a network of 25 dealers nationwide.

KMNZ manages the New Zealand operation from its Auckland headquarters. Kia's brand slogan, "The Power to Surprise", represents the company's global commitment to surprise the world by providing exciting and inspiring experiences.

KMC, a maker of world-class quality, was founded in 1944 and is Korea's oldest manufacturer of motor vehicles. Around 3 million Kia vehicles a year are produced at 15 manufacturing and assembly operations in five countries. It sells and services through a network of subsidiaries, distributors and dealers covering nearly 180 countries. Kia globally today has over 51,000 employees worldwide and annual revenues of over US\$47 billion.

KMC primarily manufacturer vehicles across the passenger car and SUV segments.

## 2. Summary of KMNZ impact statement

KMNZ has grown from selling 1,832 in 2008 to 6,882 vehicles in 2018. This proves KMNZ has the ability to make change in the New Zealand market place within a traditional industry.

KMNZ understands the Government's commitment to hard decisions on CO<sub>2</sub> emissions. We acknowledge action is needed in transport with emissions increasing.

The CCS in its current form requires the NZ automotive industry to reinvent itself. The chances of success will need meaningful incentives and support of the automotive industry will enable NZ to reduce our CO<sub>2</sub> exposure.

KMNZ has thoughtfully reviewed the proposal to improve the success rate. We support the intent 100% and want to make it work in a way that is mutually beneficial. The proposal got us thinking about how the future might look and how Kia can play a role.

The data in the discussion paper is not entirely relevant to NZ. Our use of vehicles is very different to Japan and Europe. 28% of the new cars in Japan that fit the goal have an engine smaller than a decent kiwi motorbike.

The considerable growth in Light Commercial Vehicles has changed our landscape requiring careful and measured actions. Overseas markets separate CO<sub>2</sub> targets into two sections, passenger and SUV then LCV and NZ should do the same.

New Zealand has unique challenges compared to other countries. New Zealanders can't just jump on the next train for local transport; we rely on vehicles for our mobility. We have a very old car fleet with outdated technology and Kiwis won't buy a small car that would struggle on the Rimutakas or Porters Pass. New Zealanders are buying bigger vehicles, not smaller, Government and industry need to work together to really make it work.

New Zealand is also very small creating issues that impact this proposal. New Zealand can't actually call the shots on this. We simply cannot within 2-5 years import suitable vehicles. The big manufacturers are not interested in tweaking their technology for a minor Right-Hand Drive market.

The Clean Car Standard proposal has led to Kia thinking outside the box and considering Left-hand drive vehicles being made legal.

Kia sees the proposed CCS as an opportunity to encourage New Zealanders to buy a new car in the future. Benefit from the latest technology and be as safe as they can afford. If that new car has to be a, HEV, PHEV or EV, then buyers will need to buy into the reduction of CO<sub>2</sub>.

The proposed direction only affects 8% of the cars on the road and will take time to have a meaningful impact. Knowing the future roadmap anticipated by the Government will ease the transition required by industry.

Government drives the direction of change, we in industry do not want to be put out of business in the short term when we the NZ vehicle industry have the knowledge and appetite for taking responsibility for CO<sub>2</sub>. Provide the industry with the opportunity to work together so consumers can still enjoy driving long distances and our beautiful coastal roads.

## Glossary

Agents	a person who acts on behalf of another person or group.
ANCAP	The Australasian New Car Assessment Program
CCD	Clean Car Discount, proposed Feebate
CCS	Clean Car Standard
CO <sub>2</sub>	Carbon Dioxide
EU	European Union
Euro4	<b>Petrol:</b> CO: 1.0g/km THC: 0.10g/km NOx: 0.08g/km  <b>Diesel:</b> CO: 0.50g/km HC + NOx: 0.30g/km NOx: 0.25g/km PM: 0.025g/km
Euro5	<b>Petrol:</b> CO: 1.0g/km THC: 0.10g/km NMHC: 0.068g/km NOx: 0.06g/km PM: 0.005g/km (direct injection only)  <b>Diesel:</b> CO: 0.50g/km HC + NOx: 0.23g/km NOx: 0.18g/km PM: 0.005g/km PN [# /km]: $6.0 \times 10^{11}$ /km
Euro6	<b>Petrol:</b> CO: 1.0g/km THC: 0.10g/km NMHC: 0.068g/km NOx: 0.06g/km PM: 0.005g/km (direct injection only) PN [# /km]: $6.0 \times 10^{11}$ /km (direct injection only)  <b>Diesel:</b> CO: 0.50g/km HC + NOx: 0.17g/km NOx: 0.08g/km PM: 0.005g/km

	PN [# /km]: $6.0 \times 10^{-11}$ /km
Euro6.2	Euro 6.2 standard is the latest emissions regulations (also known as Euro 6d-TEMP). Euro 6.2 is applicable to all new car models launched from September 2017 and all new car registrations from September 2018 in various European countries.
EV	Electric Vehicle
HEV	Hybrid Electric Vehicle
Homologation	The process of certifying vehicles or a particular component in a vehicle that it has satisfied the requirements set by various statutory regulatory bodies.
Idle-Stop-Go	A start-stop system or stop-start system automatically shuts down and restarts the internal combustion engine to reduce the amount of time the engine spends idling, thereby reducing fuel consumption and emissions.
KMNZ	Kia Motors New Zealand
LCV	Light Commercial Vehicle (eg. Ford Ranger)
New Suppliers	Never registered vehicle globally
NZ	New Zealand
OECD	The Organisation for Economic Co-operation and Development
Parc	The number of cars and other vehicles in a region or market.
PHEV	Plug-in Hybrid Electric Vehicle
R&D	Research and Development
Supplier	An importer of vehicles
SUV	Sport Utility Vehicle (eg. Kia Sportage)
Used Suppliers	Previously registered vehicle globally
Used Vehicle	Any vehicle that has been registered previously within New Zealand or overseas.

### 3. Overview of KMNZ impact Statement

KMNZ has always supported the early introduction of improved technologies as they become available to New Zealand from our parent company, KMC. We also support the improvement of the automotive industry in New Zealand through being a member of the Motor Industry Association, (MIA). These actions ultimately provide the New Zealand Consumer with technologically advanced and affordable vehicles.

The Clean Car Standard, 9<sup>th</sup> July 2019, to be referred to hereafter as CCS, is a discussion document with initiatives that, in our opinion, reflect closely the European Regulation (EC) No 443/2009 of the European Parliament and of the Council of 23 April 2009 setting emission performance standards for new passenger cars as part of the Community's integrated approach to reduce CO<sub>2</sub> emissions from light-duty vehicles.

The major difference is the EU standard applies to Passenger and SUV only, and does not include Light Commercial Vehicles which reduces the total CO<sub>2</sub> weighted reported average.

KMNZ welcomes discussions on how the proposed CCS document could be integrated into the New Zealand automotive industry. Discussion could enable a business model to achieve the desired and sustained reduction in CO<sub>2</sub> emissions from the national vehicle car parc.

The current CCS is, in our opinion, an initial discussion document with serious flaws. Its implications to the industry and consumer need to be fully reviewed. KMNZ welcomes the opportunity to work constructively with Government to achieve a workable solution to reduce CO<sub>2</sub> in the automotive sector.

**The CCS document includes two main drivers to influence change:**

- 1. Clean Car Discount, (CCD) Feebate: Consumer demand focused, (Part 2A of the CCS).**
- 2. Supplier CO<sub>2</sub> Penalty: Importer, (New Vehicle and Motor Traders) supplier focused.**

KMNZ prefers a policy that drives the consumer to change their buying preference through education and financial incentives, rather than forcing restrictions on new vehicle importers. New vehicle importers have a limited product range available to import. The additional CO<sub>2</sub> penalty liability on the importer will lead to a forced and substantial price increase to the New Zealand car buyer.

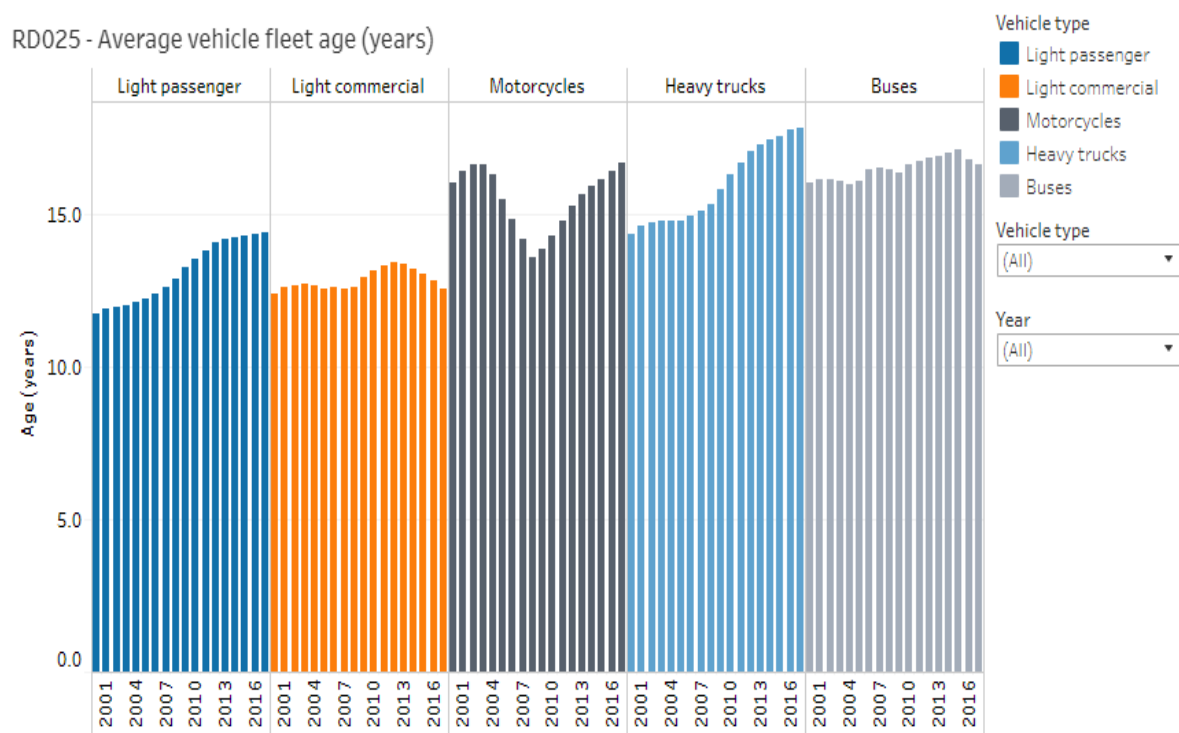
To say the proposed policies are significant, is an understatement. The proposed Supplier CO<sub>2</sub> Penalties would be transferred to the consumer through a vehicle price increase of from \$4,000 for a Micro car, to +\$14,200 for a LCV, excluding the CCD associated costs.

The Supplier CO<sub>2</sub> Penalty is untenable in the proposed CCS and should be rejected. In this document we submit that the CCD is the best option. This is based on deep industry knowledge and thorough research. KMNZ invites further discussion.

Future considerations to reduce automotive CO<sub>2</sub> should focus on the existing in-market fleet with primary focus to reduce old vehicles and replace with low CO<sub>2</sub> vehicles. This could be achieved through registration benefits, scrappage incentive funded by the Supplier CO<sub>2</sub> penalty or an increase in regional fuel tax based on population density.

#### 4. Unique New Zealand issues

**Age of Fleet:** The New Zealand market is complex with an increasingly aging vehicle fleet. An historical large volume of Japanese sourced used vehicles creates a unique mix of vehicle specification and affordability.



Source: NZ Transport Agency Motor Vehicle Register

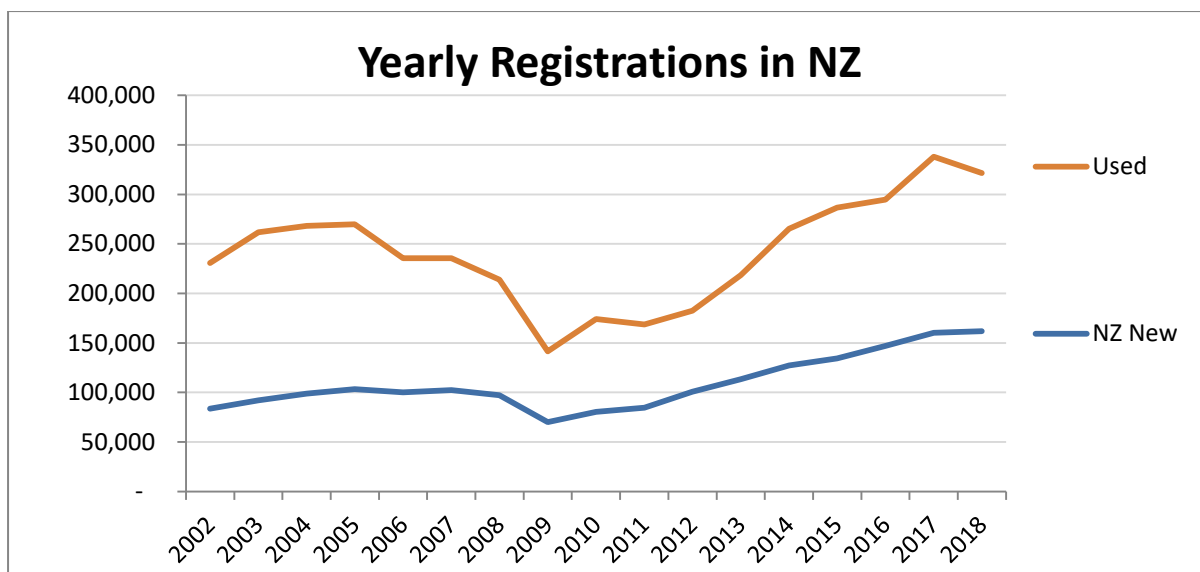
<sup>1</sup>The average age of New Zealand's light passenger vehicle fleet has increased from 11.7 years in 2000 to 14.4 years in 2017. And it's getting worse. Our fleet is older than the United States (11.6 years for cars and light trucks in 2016), Australia (10.2 years for all vehicles in 2019<sup>2</sup>), Canada (9.3 years for light vehicles in 2014), and Europe (7.4 years for passenger cars in 2014).

The reason New Zealand has one of the world's oldest fleets is the importation of older second hand vehicles<sup>3</sup>. This graph shows over 30 years of importing older engine and (outdated) safety on our roads.

<sup>1</sup> <https://www.transport.govt.nz/mot-resources/transport-dashboard/2-road-transport/rd025-average-vehicle-fleet-age-years/>

<sup>2</sup> <https://www.abs.gov.au/ausstats/abs@.nsf/mf/9309.0>

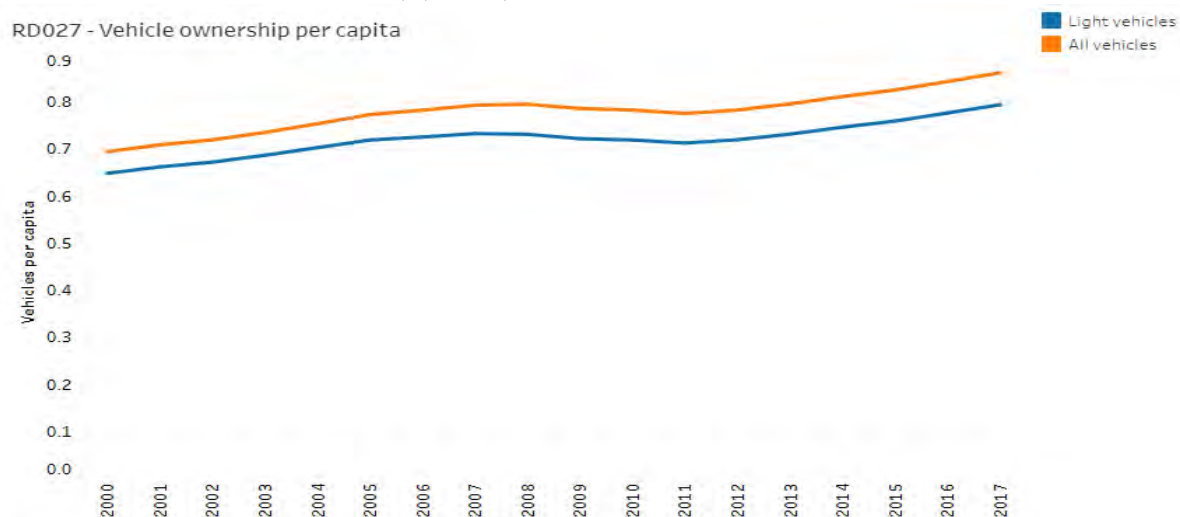
<sup>3</sup> MIA Data



This fact creates a misalignment of the desired outcome of reducing New Zealand automotive CO<sub>2</sub> and the successful implementation of the CCS. New Zealand therefore requires a more appropriate and considered approach.

**Mobility:** Transport is a requirement of society. The automotive sector compensates for our geographical nature and low population relative to many of the OECD countries<sup>4</sup> used as comparisons in the CCS. Where there is a higher population, lower ownership per capita is significant. The impact of further increase in cost of living in low population density areas such as New Zealand with the proposed CCS makes the comparison unfair.

New Zealand Historical ownership per Capita<sup>5</sup>.



Source: NZ Transport Agency Motor Vehicle Register, Stats NZ (population)

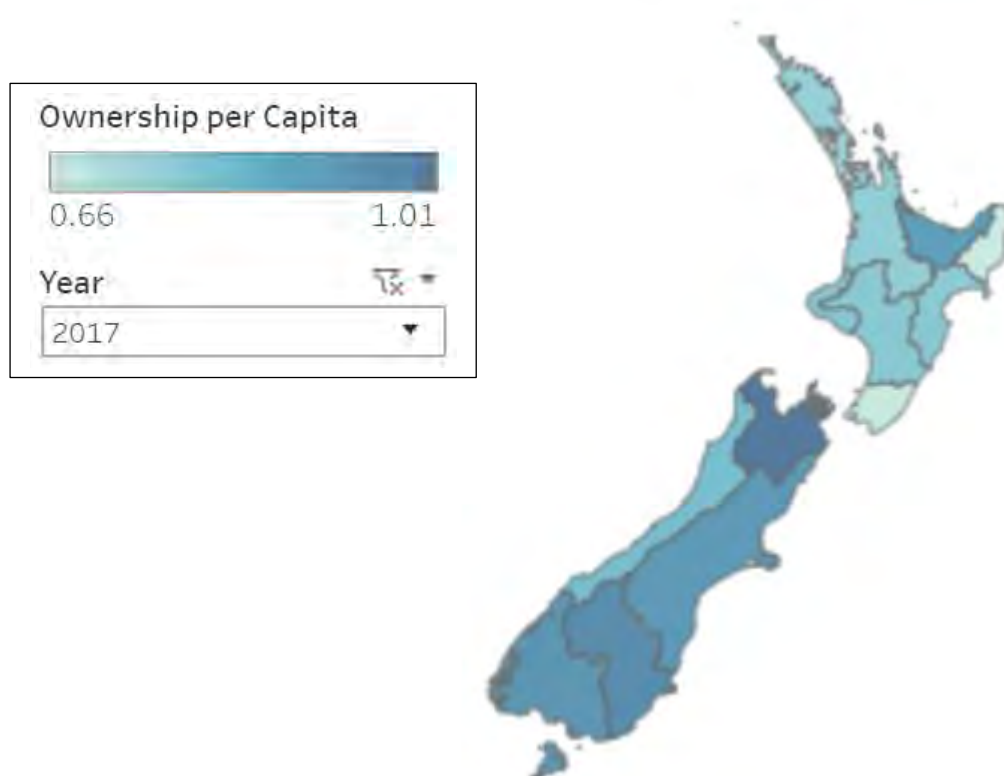
<sup>4</sup> CCS, Page 8, first paragraph

<sup>5</sup> <https://www.transport.govt.nz/mot-resources/transport-dashboard/2-road-transport/rd027-vehicle-ownership-per-capita/>



New Zealand does not have the population to support high capacity transport. This coupled with our geographic challenges restricts the ability of the automotive sector to match the CO<sub>2</sub> levels of other OECD countries. That is why this CCS is so critical to NZ's future.

<sup>6</sup> RD028 - Light vehicle ownership per capita by region



**Source:** NZ Transport Agency Motor Vehicle Register, Stats NZ (population)

Where New Zealand has 86 vehicles per 100 people, we are clearly very different to other OECD countries<sup>7</sup> and comparisons need to be appropriate and relevant.

In more dense populations, other forms of transport exist and are viable. In NZ, to be mobile, we need cars.

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<sup>6</sup> Ministry Of Transport: <https://www.transport.govt.nz/mot-resources/transport-dashboard/2-road-transport/rd027-vehicle-ownership-per-capita/d028-vehicle-ownership-per-capita-by-region/>

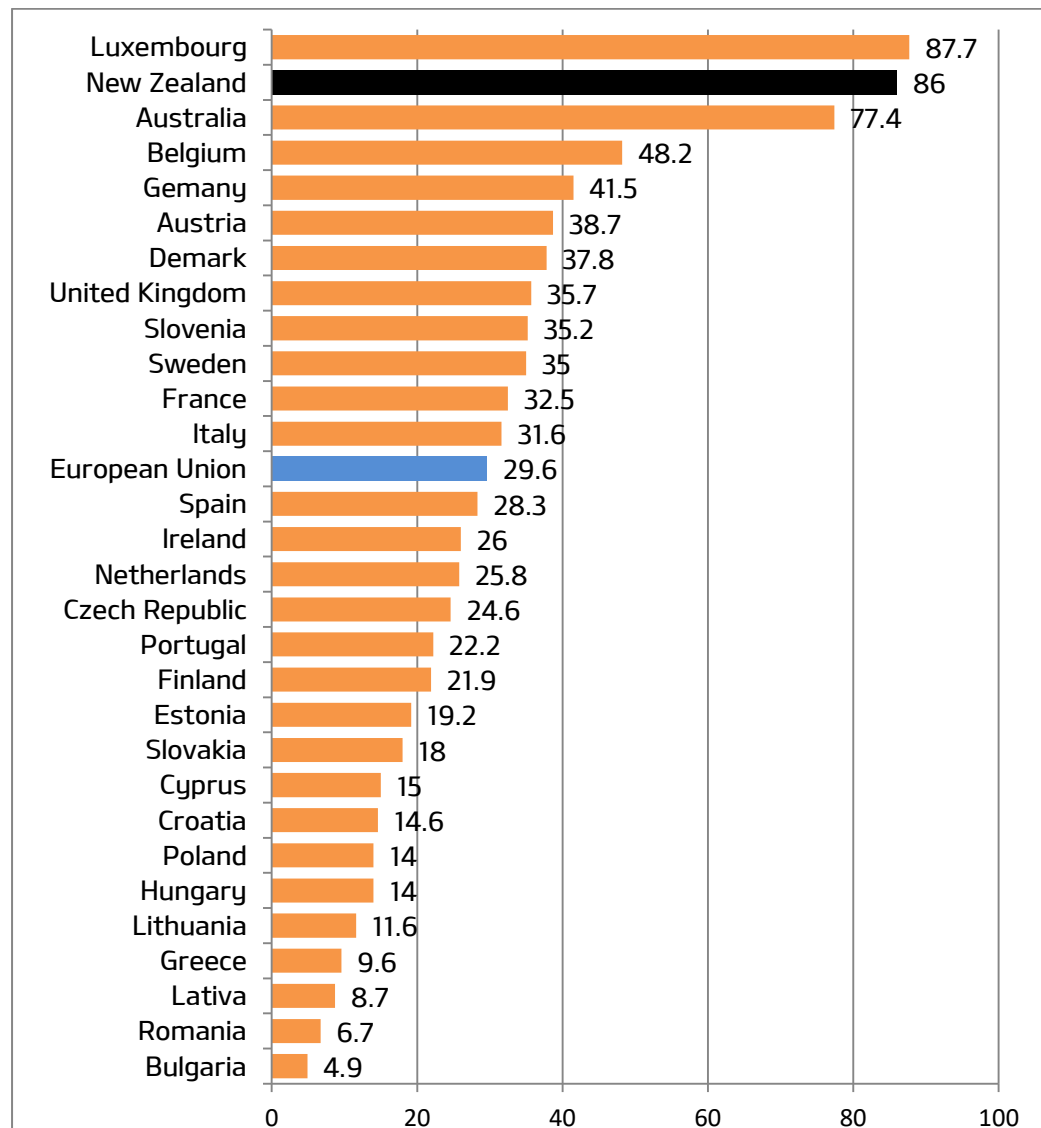
<sup>7</sup> <https://www.acea.be/statistics/tag/category/per-capita-registrations>

## Per Capita Registrations

New Passenger car registrations per 1,000 inhabitants (European Union<sup>8</sup>, by Country, in units, 2018)

NZ 2019 MIA data.

Australia: 2018<sup>9</sup> population, 2019 Motor Vehicle Census<sup>10</sup>



**New Vehicle Industry Viability:** The current financial viability of the New Zealand automotive market is understood by Private consumers and companies purchasing new vehicles. In addition, the predictability of consistent financial forecasting and modelling is valued by lease companies and auction houses selling late-model vehicles.

<sup>8</sup> <https://www.acea.be/statistics/tag/category/per-capita-registrations>

<sup>9</sup> <https://www.abs.gov.au/ausstats/abs@.nsf/0/D56C4A3E41586764CA2581A70015893E?Opendocument>

<sup>10</sup> <https://www.abs.gov.au/ausstats/abs@.nsf/mf/9309.0>

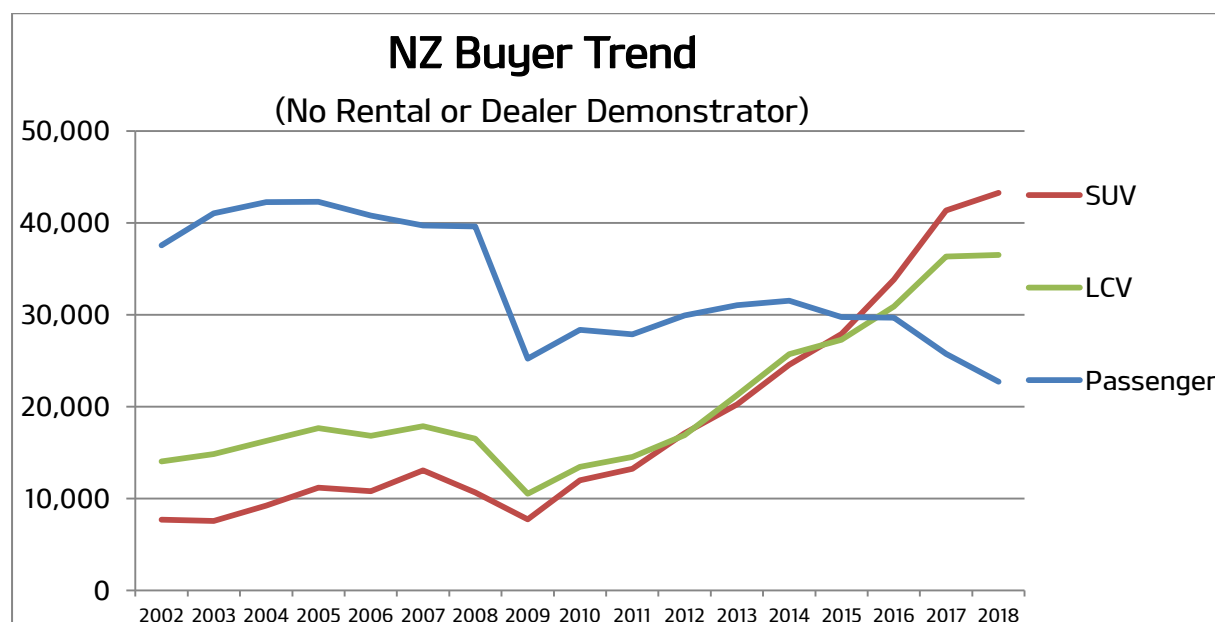
The depreciation rate based on the proposed CCS would greatly increase new vehicle prices, inflated to incorporate the Supplier CO<sub>2</sub> penalties. Increased depreciation would negatively and unfairly impact the new vehicle suppliers through reduced volume.

The simple reason for this increased depreciation is the trade-in value of a new vehicle is dictated by the equivalent imported model from Japan. The mid to long-term impact on the new vehicle sector would result in decreased annual volume. Thus reducing the fundamental objectives of the CCS.

The consumer or company contemplating a new vehicle would have to consider the price increase. Clearly many would choose to retain their current vehicle or buy an imported second hand vehicle. As mentioned, both options create a barrier to new engine and safety technology for the ordinary driver and those with company responsibility.

The New vehicle industry would be severely weakened. An elitist class of safe and efficient vehicles could develop in New Zealand.

**Buyer Preference:** The new vehicle consumer trend has transferred from Small passenger vehicles to SUV's, and Light Commercial Vehicles, (LCV) in recent years. The buying preference is due to lifestyle choice and the additional road visibility in a high riding vehicle. Data excludes Rental and Dealer Demonstrators to show more accurately the actual New Vehicle Buyer preference.

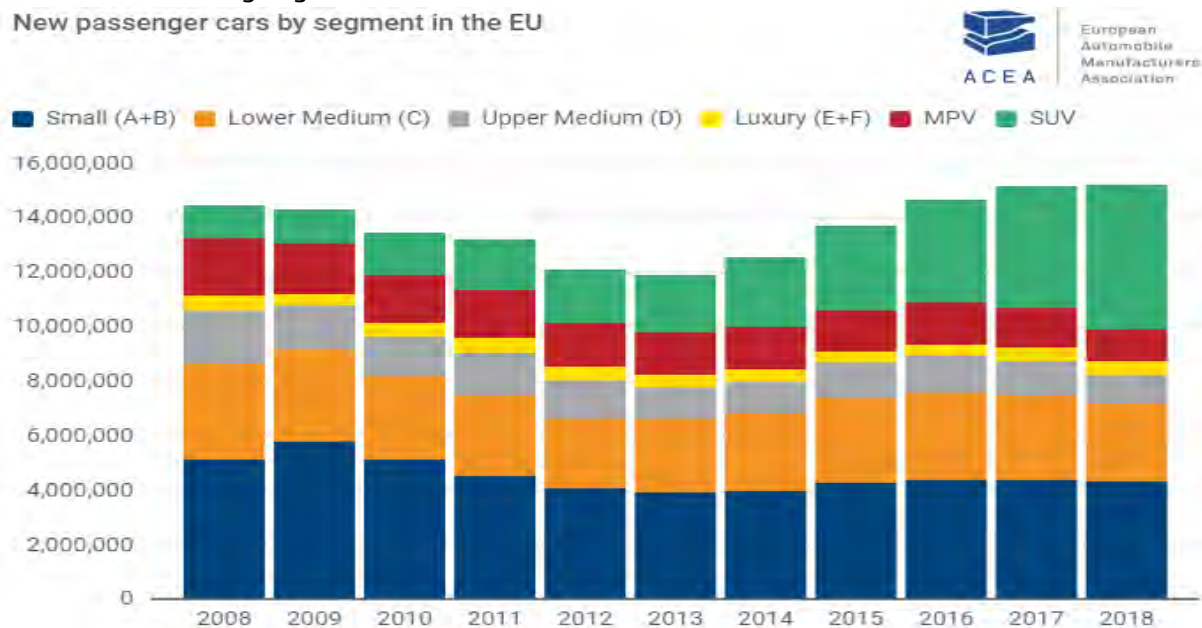


The proportion of Passenger vehicles is higher in overseas markets where smaller vehicles are lighter and produce less CO<sub>2</sub>. This is a major challenge in New Zealand to convert the consumer to smaller vehicles.

In comparison to the Passenger and SUV EU market data where 54%, (8.2m units)<sup>11</sup> are Small and Medium vehicles, New Zealand market share is only 33%<sup>12</sup> and decreasing.

EU historical data by segment.

New passenger cars by segment in the EU



It is therefore incorrect to compare overseas market data and CO<sub>2</sub> results without adequately addressing both New Zealand consumer preference trend and commercial financial reimbursements rather than Supplier financial penalties.

**Anticompetitive:** Preventing consumer choice by radically restricting the range of new vehicles available. The CCS proposal is creating serious price discrepancies between similar vehicles from different manufacturers. This discussion paper could be interpreted as Anti-competitive; and we do not think that is the intention.

<sup>11</sup> European Automobile Manufacturers Association <https://www.acea.be/statistics/tag/category/segments-body-country>

<sup>12</sup> MIA sourced data

## 5. Kia Motors New Zealand response to questions asked in the CCS

### Part 2: The Clean Car Standard

#### Part 2A: How the Clean Car Standard would work

Is the Clear Car Standard appropriate for New Zealand? If not, Why?
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Our view is the Clean Car Standard, as proposed, has significant flaws and will not achieve the desired results. However KMNZ welcomes the opportunity to engage at this stage.

The document does not take into account the financial impact on the consumer nor the ability for new vehicle suppliers to meet the annual emissions target.

We fail to understand why the proposal only targets first time registrations as the primary target to reduce emissions and does not address the majority of vehicles in NZ using old engine technology.

The proposed yearly weight band targets have no basis to support the decrease rates. Even the EU which has been active in reducing automotive CO<sub>2</sub> reduction since 2009 with global automotive giants R&D investment, cannot achieve the suggested Micro vehicles target in the CCS.

The CCS proposal in its current form will force new vehicle suppliers to the absolute forefront of technology. That's if we can source that technology, given NZ is a small market and limited to RHD. It is obvious the weight-band increases will encourage NZers to buy used cars. Keeping old cars on the road even longer defeats the purpose of the CCS.

Consumer choice would be constrained due to the supplier's inability to justify importing some new vehicles including low margin Small vehicles into our small market.

The CCS in its current form would essentially act as a Car Tax for the wealthy or a transfer of wealth by stealth.

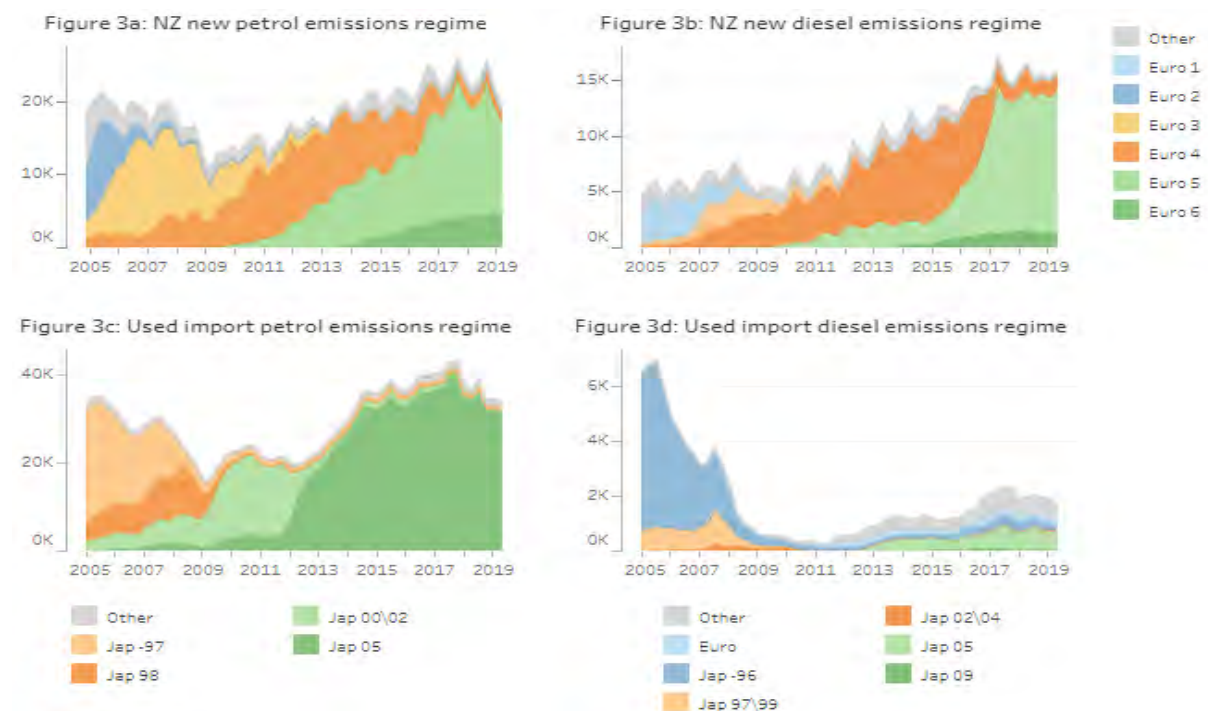
The CCS future impact prediction<sup>13</sup> relies heavily on EV consumer acceptance. There is no evidence in the discussion document to justify the provided data and therefore the ability to meet the 2025 target.

The proposed standard does not make allowance for New Zealand's unique automotive market, population, or geography. Ultimately it is poorly constructed and details a heavy biased towards used second-hand vehicles.

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<sup>13</sup> CCS, Page 12 "The impact of vehicle fuel efficiency standard (VFES) on light vehicle emissions"

We would support a reduced used import aged ban (3-6 years) with minimum of Euro5<sup>14</sup> emissions and safety specification aligning with ANCAP<sup>15</sup> 5-star of the same manufactured year. There should be a plan to move towards only Euro 6 within 5 years.



The quoted savings to households of \$6,800<sup>16</sup> over the life of the vehicle does not take into consideration the private investment of EV chargers being fitted in a garage. The average current cost to install a 32amp charger is \$2,500 if the fuse box is located in the same garage. This is misleading the Benefit-cost ratio.

In terms of price parity<sup>17</sup> there is no relevant or supporting data to support the comments on price parity.

<sup>14</sup> <https://www.transport.govt.nz/mot-resources/vehicle-fleet-statistics/quarterly-fleet-statistics-key-graphs-april-to-june-2019-update/>

<sup>15</sup> [https://www.ancap.com.au/ancap\\_evolution](https://www.ancap.com.au/ancap_evolution)

<sup>16</sup> CCS Page 10 and page 13

<sup>17</sup> CCS page 14

Is an average emission target of 105 grams CO<sub>2</sub> per kilometre by 2025 an appropriate target for New Zealand? If not, Why?

KMNZ do not support the 105 gram target by 2025.

There is no methodology to support the 105g of CO<sub>2</sub> target other than what Australia recently investigated and rejected. We find the relationship to the Japanese market irrational and misleading. In 2018<sup>18</sup> the 660cc vehicle segment represents 28.4% (1,495,706 units 2018) of total sales in Japan.

The targeted yearly rate of CO<sub>2</sub> reduction is too aggressive to achieve, providing support the CCS is a CO<sub>2</sub> Tax.

In KMNZ's current line-up of 10 models, only one would meet the 2025 target. KMNZ would require the entire range to be PHEV or EV to prevent a CO<sub>2</sub> penalty.

The current 105 gram target is not achievable by 2025.

The CCS 105 gram target is more aggressive than the EU, where Passenger and SUV are combined and recorded and LCV is separated due to the tool of trade nature of the vehicle.

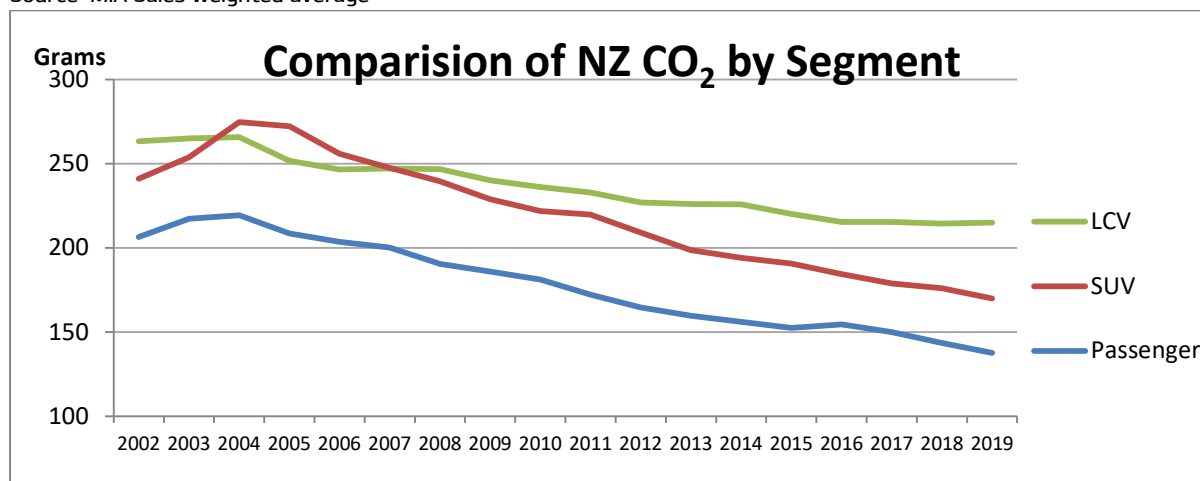
The below graph illustrates the actual historical decline by segment. It clearly shows the difference between technology utilisation in Passenger and SUV compared with LCV. To group them as one is inappropriate to Passenger and SUV vehicles. There needs to be different approach to the segments.

New Zealand automotive industry introduces new technology when available. The advances in technology are outside of New Zealand's control and belongs with significant R&D investment from parent companies. To increase the rate of technology within NZ requires a shift in consumer buying preference. The consumer will not change their choice if they are financially crippled by doing so.

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<sup>18</sup> <http://www.jama-english.jp/publications/industry.html> - The Motor Industry of Japan 2019 PDF

Source: MIA Sales weighted average<sup>19</sup>



The CCS does not consider the development schedule and life duration of models from manufactures where the drivetrain, (Engine/transmission), development is set for the duration of the model, typically 4-6 years. The New Zealand Transport Agency allows for model life cycle in its emissions definitions<sup>20</sup> and this existing protocol should be incorporated into the future discussions to refine the CCS.

New vehicles have had to meet the Euro5 standard since 2014 for new model, whereas used second hand imported vehicles only need to meet Euro4 for a petrol vehicle after 2012. We would support increasing the used vehicle minimum criteria to Euro5 for petrol and diesel engines to reduce CO<sub>2</sub> levels.

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

The current proposal's impact would be catastrophic to the automotive industry. Primarily due to the increased CO<sub>2</sub> Penalty imposed on new suppliers. New Suppliers would need to recover the penalty expense from the consumer in addition to the CCD. The impact would cause significant reduction in new units, impacting the viability of existing extended industry infrastructure.

There is a huge imbalance between the CCD financial impact on first vehicle registration compared to the \$1B combined penalties on the new Suppliers. This suggests the CCS initiative to force the non-complying new vehicle selling price up will assist with consumer acceptance of purchasing an EV. If this is correct, it unfairly and severely penalises the New Suppliers by transferring the cost increase responsibility from Government to New Suppliers.

Previous response on New Vehicle Industry Viability is relevant to the question.

<sup>19</sup> MIA data

<sup>20</sup> <https://vehicleinspection.nzta.govt.nz/virms/entry-certification/i-and-c/exhaust/exhaust-emissions#np>



Supply of EV is a concern with increased demand as current EV supply volumes are inconsistent. Future battery production is outside of NZ control and therefore is unknown.

## Part 2B: How the Clean Car Standard would work

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

KMNZ does not believe the outlined proposal will work as it currently stands.

The CCS expects New Suppliers to be able to import technology almost immediately and does not account for ability of manufacturing lead-times or current model life-cycles to develop NZ homologation compliance and testing for the NZ market. Although technology may exist within our parent companies, it is generally designed for Left-hand Drive, (LHD) vehicles due to the economic scales of production. To produce vehicles in Right-Hand Drive, (RHD), manufacturers require guaranteed volume to off-set the investment.

This world map<sup>21</sup> shows which side of the road traffic drives on. Green coloured countries drive on the right, orange countries drive on the left.



The EU started light vehicle regulation in 2007 and has actively implemented refinements to the regulation over the last twelve years. During this time consumer and suppliers have adjusted their expectations. The CCS proposal jumps from organic industry improvement to the proposed level in an unattainable six years.

The EU regulations<sup>22</sup> included a staggered advantage to EV vehicle suppliers using Super-credits

<sup>21</sup> <https://www.worldstandards.eu/cars/list-of-left-driving-countries/>

In calculating the average specific emissions of CO<sub>2</sub>, each new passenger car with specific emissions of CO<sub>2</sub> of less than 50 g CO<sub>2</sub>/km shall be counted as:

3.5 cars in 2012,  
3.5 cars in 2013,  
2.5 cars in 2014,  
1.5 cars in 2015,  
1 car from 2016,  
2 cars in 2020<sup>23</sup>  
1.67 cars in 2021  
1.33 cars in 2022  
1 car in 2023

KMNZ are in favour of adapting Super-credits within a revised CCS proposal.

The EU regulation rewards suppliers with extra benefits from incorporating improved technology, (Eco-innovation, biofuels and Idle-Stop-Go<sup>24</sup>) even if it cannot be used due to external factors.

There is no information on how to recover CCS Supplier Penalties for “motor vehicle traders” who operate for less than 12 months and restart another company.

Utilising existing regulatory database/websites and integrating motor vehicle trader importation linked to the first registration data by vehicle would benefit the overall management of the Supplier CO<sub>2</sub> penalties. This database could be made transparent to all New Zealanders and assist with importer responsibility, for example, Recalls, the recent Takata airbags.

The range of imported used vehicles by model variants is wide. Accurate data can be hard to source, (Gross and Tare weight, CO<sub>2</sub>). This area could be exploited and is open to CO<sub>2</sub> data manipulation.

As mentioned previously, the CCS does not separate Light Commercial vehicles from the proposed bands.

The Clean Car Standard will cover new vehicles and used vehicles being brought into New Zealand. Should people who import three vehicles or less be exempted? If not, why?

KMNZ support all imported vehicle having the same importation criteria and expense.

KMNZ believe there is a major flaw in the CCS proposing the exemption of three or fewer vehicles. This creates an opportunity for suppliers (new and used) to act as agents to support

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<sup>22</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R0443>

<sup>23</sup> [https://ec.europa.eu/clima/policies/transport/vehicles/cars\\_en](https://ec.europa.eu/clima/policies/transport/vehicles/cars_en)

<sup>24</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R0443>, page 12

consumers on the first registration to thwart the CCS Supplier CO<sub>2</sub> penalty. There needs to be a robust structure so all imported vehicles have the same obligations and compliance.

### **Phasing in the emissions target of 105 grams CO<sub>2</sub> per kilometre**

Do you support phasing-in the 105 grams CO<sub>2</sub> per kilometre emissions target by:

- adopting multiple targets that progressively lower to 105 grams? OR
- using the increasing percentage of fleet approach?

Please explain why you prefer the approach you have chosen.

Refer to above comments. KMNZ does not support the 105 grams target. However we do support a rolling used import year range of 3-7 years with minimum of Euro5 emissions and safety specification aligning with ANCAP<sup>25</sup> 5-star of the same manufactured year to support a coherent automotive industry approach to reduce emissions.

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

KMNZ does not support the timeframe. The CCS expects New Suppliers to be able to import technology almost immediately. It does not account for ability of manufacturing lead-times to develop NZ homologation compliance and testing for the NZ market, the economic viability or actual availability.

### **Weight-adjusted Standard**

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

The current proposed weight-adjusted CCS is not achievable by any brand in NZ, unless they only have EV models, this means every brand will have to pay a Supplier CO<sub>2</sub> penalty. The weight bands have no relevance or methodology to explain the rationale behind the proposal.

Referring to above comments, as regulated in other markets, our preference is for LCV to be separated from Passenger and SUV due to their commercial purpose.

To reduce CO<sub>2</sub> and the trend and financial tax benefit in owning a LCV for consumers who do not need a LCV, the Tax benefit should be tightened to ensure the company's requirement to receive the Tax benefit.

There should be a Supplier rebate for total CO<sub>2</sub>, where technology is incorporated into the vehicle when external factors prevent that technology from being used or recognised, eg. Bio-fuel capability or Idle-stop-go.

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<sup>25</sup> [https://www.ancap.com.au/ancap\\_evolution](https://www.ancap.com.au/ancap_evolution)

KMNZ would support a weight-adjusted emission target calculation based, rather than bands; however KMNZ recommends law maker's involvement with industry during the consultation process to understand what is achievable by year.

Do you support a penalty of \$100 for each gram CO<sub>2</sub> per kilometre that a supplier of new vehicles exceeds its fleet target? If not, why?

No, the value does not recognise the additional costs associated with NZ's geographic location incurring a higher freight cost to source product from overseas production locations. The EU target reflects production from within the continent. The Australian proposed target was rejected.

The EU CO<sub>2</sub> Regulation (2012~2018)<sup>26</sup> used a progressive approach to the penalty structure to reward Suppliers who were close to the target but were still exceeding. This started at five euro / gram and worked upwards. KMNZ supports discussion on this concept.

Do you support a penalty of \$50 for each gram CO<sub>2</sub> per kilometre that a supplier of used imported vehicles exceeds its fleet target? If not, why not?

Absolutely no. There is no valid reason to differentiate between New and Used and in fact profit generated by used suppliers under the CCS is expected to increase dramatically. This is due to the consistent disposal purchase price from Japan and the inflated new vehicle pricing to cover the Supplier CO<sub>2</sub> penalty, which would create a proportional increase in used vehicle prices. The margins generated would create a larger used vehicle business model through increased consumer demand. The new demand would decrease as the (fixed new supplier) model line-up would probably reduce, as explained. The used supplier's operational costs are already reduced as they don't require the same level of business infrastructure, capital investment, compliance to international brand image and customer support as new vehicle dealerships.

### **Flexibility in meeting targets for a given year**

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

This topic requires a more detailed approach to ensure a robust set of parameters supporting the fundamentals of reducing CO<sub>2</sub>.

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

Yes, similar examples can be seen in the tax legislation.

Do you support an arrangement for suppliers to pool their vehicles together to comply as a

<sup>26</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R0443>, Article 9

group? If not, why?

This topic requires more information to understand the proposal processes and framework to share CO<sub>2</sub> weighted averages and the management of the arrangement for parties involved. This is unlikely to occur with the information provided in the CCS.

Do you agree that new and used vehicle suppliers should not be able to pool their vehicles and comply as a group? If not, why? If you think they should be able to comply as a group, how should the different lifetime emissions of new vehicles and used vehicles be measured and balanced?

The CCS proposal in regards to credits, suggests disallowing new vehicle suppliers and used vehicle suppliers to group together due to the different periods of time the vehicles are in active service. However the flaw is that a single supplier may choose to bring in both new and used to create a sustainable business model. Pooling of used vehicles with new could lead to an increased volume of older fuel efficient, yet less-safe vehicles entering NZ to support the supplier's total weighted CO<sub>2</sub> average.

**The fundamental approach to lower CO<sub>2</sub> emissions should be primarily focused on importing new vehicles with current safety technologies that will remain in active service for a longer period than a used vehicle.**

#### **Should Penalties for misreporting vehicle data**

Do you support having the following penalties for misreporting data for the Clean Car Standard:

- For an individual, a fine not exceeding \$15,000
- For a person or an organisation other than an individual, a fine not exceeding \$75,000?

If not, why?

In principle, yes. The value should relate to the occurrence, not cumulative misreporting. Due to the value of vehicle transactions of a single supplier.

Do you support the sanction of disqualification from being a registered motor vehicle dealer if a supplier deliberately attempts to evade meeting annual targets? If not, why?

In principle, yes. This topic requires more detailed information to reduce and prevent suppliers, including directors and shareholders, from being accountable for past indiscretions of used suppliers.

## Ensuring valid comparisons between different emissions tests

Do you support amending the Fuel Consumption Information Rule so that only vehicles tested to the WLTP, NEDC, the JC08, and the American Federal Test Procedure meet requirements for entry certification? If not why?

KMNZ support dropping the Japanese 10/15 test and vehicles with 2008 or older technology as it conflicts with the fundamental direction of the CCS.

Japan uses a fuel economy standard 2017 Worldwide Harmonised Light Vehicle Test Procedure, (WLTP) that is measured differently to the EU WLTP<sup>27</sup>. The EU test includes an “Extra High” test increasing the CO<sub>2</sub> result, creating an unfair advantage to Japanese tested, no Extra-High test, vehicles reporting a WLTP approved rating. This creates an unworkable CCS until this is resolved to a fair fuel economy for all.

For vehicles built prior to 2017, the recognised fuel economy standard was the New European Driving Cycle, (NEDC). These results are generally lower than the WLTP test. Again, this creates an unfair advantage for used suppliers over new as the reported CO<sub>2</sub> levels are lower. This creates an unworkable CCS until this is resolved to a fair fuel economy for all.

Whether a supplier could import improved technology (HEV, PHEV) to further reduce CO<sub>2</sub> emissions but faces limitations outside of the suppliers control, such as Euro6.2 or higher engines that require a higher grade of fuel than that available in NZ, would need to be addressed in future discussions.

## How could future emissions targets be set beyond 2025

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

Refer to previous comments in target setting up to 2025. Targets above 2025 are required to provide adequate time in global planning in Right-Hand Drive and sourcing expectations to parent companies. These targets should provide some element of flexibility to support technology gains or restraints and relate to consumer buying preference trends.

Reference and alignment with existing overseas strategies would be palatable and understood, although the delayed start by NZ is anticipated to be reflected in future targets.

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<sup>27</sup> <https://www.vehicle-certification-agency.gov.uk/fcb/wltp.asp>

## Part 3: Clean Car Discount

### Part 3A: How the Clean Car Discount would work

Is the Clean Car Discount appropriate for New Zealand? If not, why?
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KMNZ support the CCD initiative in that it directly influences the buyers rational decision in what type of vehicle they require, rather than the emotive decision on ego. This supports both the Private and Commercial buyers.

KMNZ does consider both demand-side and Supplier-side initiatives need to be considered in the entirety.

The independent Kia dealer network transact purchase contracts directly with the consumer and clarification is on the CCD discount level is required based on the sales contract.

The proposed Recommended Retail Price or Maximum Retail Price ceiling of \$80,000 is unjust to those luxury buyers who have the choice and ability to purchase, either new or used high performance, high CO<sub>2</sub> or to purchase High performance, low CO<sub>2</sub> vehicles. KMNZ would support an increased ceiling in the range of \$100,000 ~ \$120,000.

A concerning aspect is the likelihood of used suppliers being able to switch their purchase range to low CO<sub>2</sub> vehicles very quickly to avoid the Supplier CO<sub>2</sub> penalty and quickly create a large disparity in the rebate ratio to over target vehicles. The funding of which would result in either reduced rebate values, Government funding support or excessive Fees on over target vehicles, that may be required as a tool-of trade. If this was to occur the new suppliers would be unfairly penalised.

The CCS is focused on first-time registrations as a means for NZ to reduce the transport CO<sub>2</sub>, the total volume per year peaked in 2017 at 338,000<sup>28</sup> compared with total vehicles in circulation for the same year at 4.2m<sup>29</sup>. The CCS proposal would improve automotive CO<sub>2</sub>, however it is only targeting 8% of the fleet with an average age of 14+<sup>30</sup> years. This proposal could be improved with a total transparent coherent approach to the automotive sector.

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<sup>28</sup> MIA Data

<sup>29</sup> MIA Data

<sup>30</sup> <https://www.transport.govt.nz/mot-resources/vehicle-fleet-statistics/quarterly-fleet-statistics-data-tables-april-to-june-2019-update/>

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

Is the emissions benchmark of 105 grams CO<sub>2</sub> per kilometre by 2025 an appropriate one to have for the Clean Car Discount? If not, why not?

KMNZ believe the target is too aggressive and unachievable. Combined with the late starting point and the desire to quickly decrease in line with other more pro-active countries is idealistic.

Similar to other countries, Light Commercial Vehicles should be removed from the target or another set of targets created specifically.

The target supports the increase of older, five year or older HEV, PHEV or EV vehicles being imported and penalises the new suppliers, both in volume and financially, who cannot source appropriate product quick enough.

Would an initial emissions benchmark of 150 grams CO<sub>2</sub> per kilometre be suitable for the first year of the Clean Car Discount? If not, why?

Yes, with removal of LCV vehicles. It still requires refinement in regards to what technology is available within the start year given the new suppliers lead-time.

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

KMNZ support rebates as a mandatory requirement to incentivise the buyer. The fee value will be seen as a negative by the buyer and may persuade the necessity to purchase emotively. The Fit-For-Purpose purchase increases the overheads or expenses of a company, ultimately passed on to a consumer.

Where the vehicle is a LCV, discount should only be provided for Fit-For-Purpose vehicles with criteria for qualification.

KMNZ believe the used Feebate is not required due to the increased supplier margin given increased selling prices. However if there was a used fee, we would recommend a maximum age limited to motivate the buyer to select a younger vehicle with reduced CO<sub>2</sub>.

In the example schedules the schedules change every year to lower the emissions benchmark and to keep the scheme self-financing. Do you think annual change is practical or should there be less change?

Consistency in target criteria is required with acceptance of manufacture production lead-times. As mentioned previously, the New Zealand Transport Agency allows for model life cycle



in its emissions definitions<sup>31</sup> and this existing logic to be taken into consideration for the model life. New Zealand manufacturers generally cannot change the engine of a model once the model is in production. This can only be achieved at a global level.

The issue with yearly decreasing emission targets creates new supplier financial hardship for selected models where they could be discontinued until the next generation model is released with newer technology.

The self-financing proposal is proposed to include a fixed lower and upper value. There needs to be more clarity on the accountability for when the account is in credit or debit.

The longer a sustained discount is applied, the higher the rate of change to lower CO<sub>2</sub> vehicles.

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

By definition, a used vehicle has been previously registered. For simplicity, a used vehicle should be treated as a used vehicle within the CCS.

As mentioned previously, there should be moving parameters on the vehicle age, emission specification and safety features on used vehicles to support the CCS.

There is concern that late model used vehicles will be imported, the used importer taking no financial responsibility for the vehicle's warranty, Takata airbag replacement. This would create a consumer expectation that the new vehicle importer should and will cover the costs associated where zero profit has been produced in the original sale. The CCS proposal financially penalises the new supplier and additional warranty liability is not acceptable.

KMNZ would support the used importer being forced to accept the responsibilities of an importer without any negative impact on the new supplier of the same model.

**How wide should the zero band be?**

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

Yes.

Do you think the size of the zero band in the example feebate schedules is appropriate? If not why?

KMNZ would prefer a wider ban to allow for the longevity of a model within its model life (4-5 years). Reducing the requirement to remove a model from the new supplier line-up and then

<sup>31</sup> <https://vehicleinspection.nzta.govt.nz/virms/entry-certification/i-and-c/exhaust/exhaust-emissions#np>

reintroducing at considerable cost. Competitiveness against other brands introducing their new model and technology from having differing periods of model replacement.

#### **How would consumers get their discounts and pay fees?**

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

Yes. Consumers would expect the rebate to be applied at the time of purchase. If a vehicle sale included financial support to conclude the contract, third party financial lenders are used which would complicate the transaction unnecessarily.

The rebate cost should not have to be funded by the supplier until payment is received from the Government. The rebate value per vehicle is excessively greater than the margin made on a new vehicle sale, and for smaller dealerships the increased financial burden would be untenable.

Auditing of the feebate is mandatory to support the fundamental objectives of the CCS are being actioned correctly. Ideally, this process is automated to prevent indiscretions.

KMNZ recommends a full understanding of both new and used business operations to minimise additional administrative resource before implementation.

KMNZ opposes the concept of feebate at time of vehicle entry into New Zealand as the financial costs are then the supplier's responsibility until the vehicle is registered.

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

KMNZ are opposed.