

MINISTRY OF TRANSPORT REPORT

Subject: ADVICE ON USED VEHICLE IMPORTS AND THE EFFECTS OF THE 2007 VEHICLE EXHAUST EMISSIONS RULE

Date: 05 February 2009 **Docmin No.:** WGTA10981

Attention: Hon Steven Joyce (Minister of Transport)

Purpose of Report

1. We understand you and other Ministers have received communications from vehicle importers wishing to discuss the Vehicle Exhaust Emissions Rule. The purpose of this note is to provide you with advice on the current state of the used vehicle import market to assist you in your discussions with interested parties.

Background

2. The 2007 Land Transport Rule: Vehicle Exhaust Emissions (the Rule) set, for the first time, minimum exhaust emission standards for vehicles entering the fleet. It set out a table of minimum standards that apply for each year up until 2013 (See Annex 1 as an example of one of the tables in the Rule). For new vehicles the minimum standards were relatively uncontroversial as the added cost of complying with these standards is negligible. The Rule was, however, strongly opposed by those in the used vehicle industry as it would require the import of newer vehicles, which are inherently more expensive. It is important to note that the Rule did not, as often reported, make used vehicles more expensive. It prevented the import of older and therefore lower cost vehicles. The actual cost of vehicles did not change.
3. The Independent Motor Vehicle Dealers Association (IMVDA), at times in partnership with the Motor Trade Association (the MTA) mounted a major campaign against the Rule using a public relations firm to lobby on its behalf. The IMVDA has historically been strongly opposed to regulations that would restrict the import of vehicles and has run large campaigns to oppose the introduction of controls such as requirements for fitting rear seatbelts and the requirement for vehicles to have been built to specific frontal impact standards as well as the campaign against the Rule.
4. During its campaign against the Rule the IMVDA made many claims about the Rule and about the reasons for it being introduced that were either not correct or overstated the issues. This memo seeks to address some of these claims made then and subsequently about the impact of the Rule.

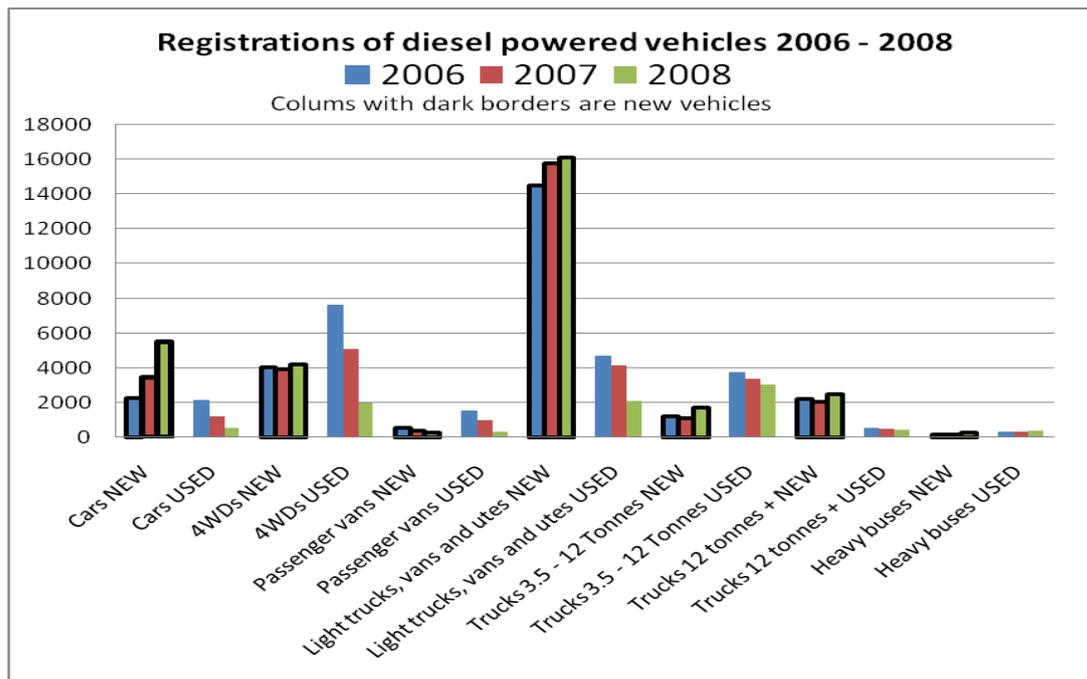
The current state of the used-vehicle industry

5. Volumes of all types of used vehicles entering New Zealand have been falling steadily since a peak reached in late 2003. Aside from any possible effect of the Vehicle Exhaust Emissions Rule there are a wide range of reasons that the used-vehicle market has been in decline since 2003.

- 5.1. At least nine finance companies collapsed in 2007 and 2008. Many of these firms were involved in financing used vehicle purchases. Although credit is still available from other institutions, their lending criteria are generally much stricter. This has made purchase of all types of vehicles, private or commercial, more difficult. Some industry analysts argue that the absence of low cost finance has had more effect on sales than any other single effect.
- 5.2. The export of used vehicles from Japan into Russia, according to official Japanese export statistics, rose from only 20,000 vehicles in 2000 to 1.1 million vehicles in 2008. Other countries have also increased their volumes of exports from Japan over this time. New Zealand importers have struggled to compete with these other buyers, especially the Russian buyers who reportedly face lower overheads and higher profit margins. (There are reports that a recent change in Russian regulations has stopped this trade since January 2009, but we are not able to confirm this through official channels).
- 5.3. The value of the NZ\$ against the Yen has dropped from a high of 97.6¥ in July 2007 to a low of 45¥ to the NZ\$ in January 2009 – the lowest rate since early 2000. This has essentially doubled the purchase price of used vehicles (and new vehicles as well) entering the fleet.
- 5.4. It is likely that the New Zealand vehicle market had become saturated. By 2007 New Zealand had close to one registered vehicle per licensed driver in New Zealand.
- 5.5. The general economic downturn would also be expected to have an impact on vehicle sales in coming years with people unwilling to make major financial commitments.

Assertions by the IMVDA over the effectiveness of the Rule

6. In a recent letter to Hon Gerry Brownlee, Minister of Energy and Resources (10 December 2008), that was also copied to you, the IMVDA makes specific mention of the effect of the Rule on the commercial sector stating that the Rule “has already effectively destroyed the commercial market for imported diesel-fuelled vehicles”.
7. This statement tells only a partial story. We assume the remark relates to the imports of used diesel vehicles, especially trucks. Therefore, it is important to note that sales of commercial diesel vehicles in New Zealand have always been dominated by sales of new vehicles. Unlike the petrol vehicle market, used diesel vehicles have typically made up only a quarter to a third of all first registrations. This is in contrast to the petrol car market where for the past six or seven years roughly three-quarters of new registrations were used vehicles from Japan. As an example of this, in 2008 16,000 new light trucks and utes (NA class) were registered compared with only 2000 used. (See graph below).



8. We are aware that although the total number of used diesel vehicles registered in 2008 was only around 10 percent less than in 2007, virtually all of those vehicles were registered in the first half of 2008¹. This in part reflects the introduction of a new rule relating to heavy vehicle brakes, which saw many vehicles, new and used, registered before 1 July to avoid needing to show compliance (see Annex 2 graphs 1C and 1D). It also reflects the large change in the value of the NZ\$ since July making replacement vehicles more expensive.

Understanding of the impact of emissions standards for used-diesel vehicles

9. Officials and Ministers were aware of the potential effects of the VEER on the import of diesel vehicles when the Rule was being developed. According to air quality scientists, emissions of fine particulates (known as PM₁₀) from diesel vehicles are responsible for most of the premature deaths associated with vehicle exhausts. Diesel vehicles are also considered a priority because diesel vehicles travel more kilometres and remain in the fleet for much longer than petrol vehicles
10. Japanese emissions standards from the early 1990s allowed up to ten times the level of emissions of particulates than standards applied to new diesel vehicles and were at least three times the level now allowed for used vehicles². The minimum standard for diesel vehicles (the Japan 02/04 standard) was therefore deliberately chosen because New Zealand was then receiving vehicles that were in effect actively making our air quality worse (see Annex 3 for graph showing relative level of emissions allowed under different diesel emissions standards). Despite assertions made by the IMVDA, all modelling carried out for the Ministry showed stopping these mid-1990s diesel vehicles entering the fleet would improve air quality and that most used diesel vehicles entering the fleet then were actually making the fleet worse.
11. An extract from the advice provided to Cabinet relating to used-diesel vehicles when it considered the Emissions Rule in 2007 is attached as Annex 4.

¹ Registration is usually, but not always done immediately prior to sale. MOT does not have figures for actual sales.

² It should be noted that many of these older vehicles are actually prohibited from use in many parts of Japan, including Tokyo, because of concerns over air-quality.

Possible aging of the fleet as a result of the VEER

12. In its recent letter to the Hon Gerry Brownlee, the IMVDA expressed a concern that if the supply of used vehicles was reduced it would encourage people to retain their vehicle for longer. Similar claims were made in correspondence to the previous Minister in October 2008 when the IMVDA stated it was already seeing people paying more for older vehicles already in the fleet and choosing not scrapping them. Whilst one year's data is too short to make any long term statements, more vehicles were scrapped in 2008 than in 2007 or in any year since 2000. See graphs in Annex 5.

Comments from vehicle purchasers since the Rule was implemented

13. Since the Rule was developed the Ministry has received many letters and seen media reports expressing the concerns of importers about being able to obtain vehicles that are cost effective to import and sell to the New Zealand public. However, we have only had two letters from purchasers of vehicles concerned that they are unable to purchase vehicles. We have confirmed with the Automobile Association and with the Bus and Coach Association at various times in 2008 that their members are not complaining to them about their inability to obtain vehicles.

Conclusion

14. Although it is clear that the used vehicle trade is suffering a significant downturn it is far from clear that the Rule is the major problem facing the sector, nor that amending it would greatly assist the used vehicle importers' current situation.

Recommendations

15. I recommend that you:

(a) Note that there are many external factors affecting the used-vehicle import sector at present including the collapse of the finance market, the huge increase in exports to Russia from Japan, the halving of the value of the NZ\$ dollar against the Yen, market saturation and the general economic downturn;	Yes/No
(b) Note that sales in the past three years of diesel vehicles, which are mainly used in the commercial sector, are dominated by sales of new vehicles and that sales of new diesel vehicles have been climbing in recent years;	Yes/No
(c) Note that the decision to implement a recent diesel vehicle emissions standard was deliberate because of the large decrease in pollutants allowed compared to earlier standards;	Yes/No
(d) Note that the rate of vehicle scrappage increased in 2008 suggesting people are not holding onto their vehicles for longer than they otherwise would have; and	Yes/No

(e) Note that although importers of used vehicles have been vocal in expressing concerns the Ministry has received few communications expressing concern from vehicle purchasers;	Yes/No
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Priority Routine **Security Level** N/A

Deadline 12/02/09

Contact for telephone discussion (if required)

Name	Position	Telephone		Suggested First Contact
		Direct Line	After Hours	
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Iain McGlinchy
Principal Adviser, Technology and Fuels

David Crawford
General Manager
Land Transport Environment and Safety

MINISTER'S COMMENTS:

MINISTER'S SIGNATURE:

DATE:

<input type="checkbox"/> <i>Noted</i>	<input type="checkbox"/> <i>Seen</i>	<input type="checkbox"/> <i>Approved</i>
<input type="checkbox"/> <i>Needs Change</i>	<input type="checkbox"/> <i>Referred to</i>	
<input type="checkbox"/> <i>Withdrawn</i>	<input type="checkbox"/> <i>Not Seen by Minister</i>	<input type="checkbox"/> <i>Overtaken by events</i>

Annex 1

An example of the minimum emissions standards applied to vehicles under the Vehicle Exhaust Emissions Rule

Table 2.3 Vehicle exhaust emissions requirements for used diesel vehicles

Certified for entry into service	Approved vehicle emissions standard	
	Used diesel vehicles	
	Light vehicles	Heavy vehicles
On or after 3 January 2008 and before 1 January 2009	ADR 30/01 and ADR 79/01; Euro 4; Japan 02/04; or US 2004	ADR 30/01 and ADR 80/00 Euro 3; Japan 02/04; or US 2004
On or after 1 January 2009 and before 1 January 2010	ADR 30/01 and ADR 79/01; Euro 4; Japan 02/04; or US 2004	ADR 30/01 and ADR 80/02; Euro 4; Japan 02/04; or US 2004
On or after 1 January 2010 and before 1 January 2013	ADR 30/01 and ADR 79/01; Euro 4; Japan 05; or US 2004	ADR 30/01 and ADR 80/02; Euro 4; Japan 05; or US 2004

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Annex 2

Figure 1c : Monthly bus registrations

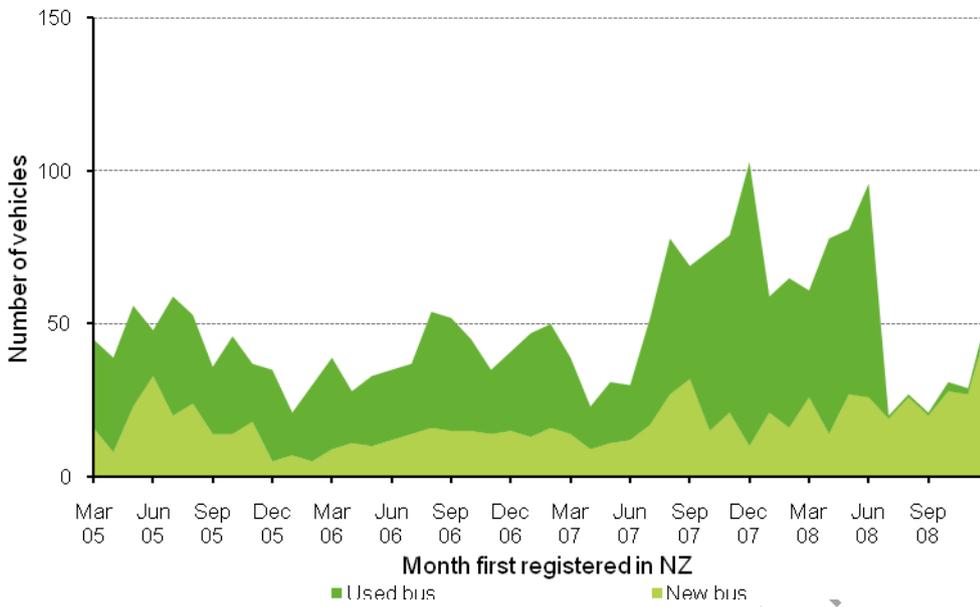
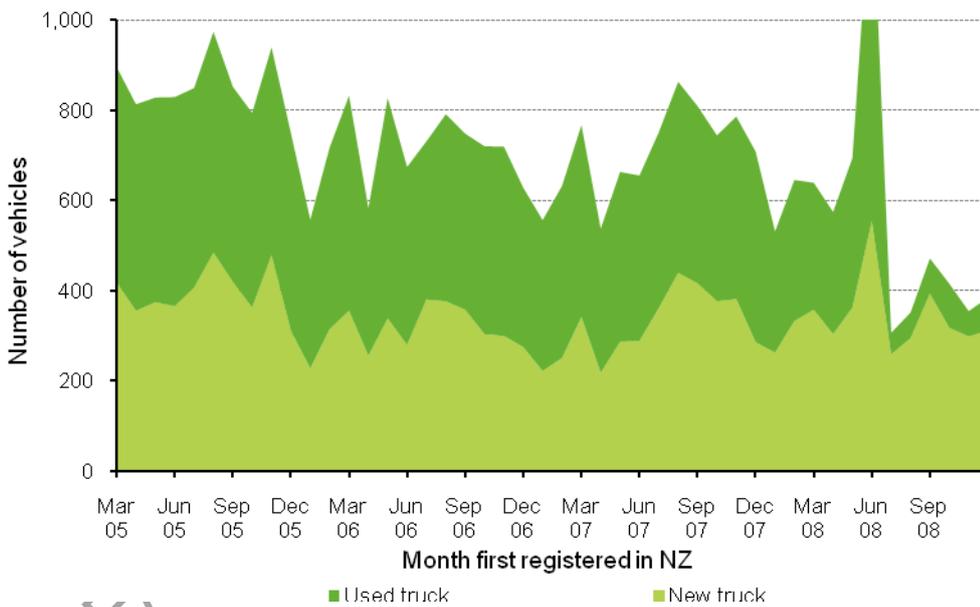
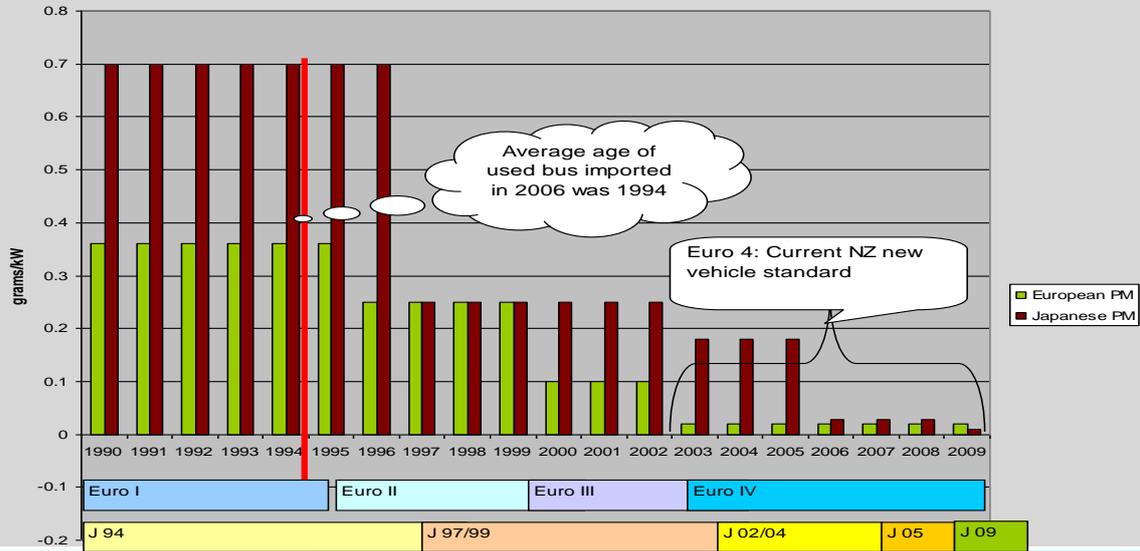


Figure 1d : Monthly truck registrations



Annex 3

Japanese and European particulate (PM10) emission levels: heavy diesel vehicles



Japanese diesel standards were almost twice as polluting as European standards for the same year.



Current vehicle imports do not improve fleet by entering

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Annex 4

Extract from Cabinet paper

Changes to the proposed Rule: used diesel vehicles

38. All modelling showed that implementing the standards set out in the proposed Rule for used diesel vehicles would lead to reductions in harmful emissions. This is largely because the average age of used diesel-powered heavy vehicles entering the New Zealand fleet in 2007 was more than 10.4 years old (light diesel-powered vehicles 8.9 years) and is getting older every year. By comparison in 2007 petrol vehicles were an average of 8.1 years old at arrival in New Zealand.

39. Japanese diesel vehicle emissions standards have, until the introduction of the Japan 02/04 standard, been much less strict than equivalent European standards. In the early 1990s the allowable Japanese limits for particulate emissions (which are considered the most harmful) were around twice that of the Euro 1 standard in place in Europe at that time. They were also more than four times higher than the Japan 02/04 standard. Unlike with petrol vehicles, simply not importing these older vehicles would reduce particulate emissions from the New Zealand fleet by two to three percent over 10 years depending on the scenario.

40. Used diesel vehicles, especially heavy diesel vehicles, are generally only economic to import into New Zealand after they are eight to ten years old. Therefore, any emissions standard that requires vehicles to be younger than that age is likely to virtually eliminate all current imports of diesel vehicles. While this is likely to be beneficial for air quality, it may have a negative economic impact on those who would otherwise have imported or purchased such vehicles. As virtually all diesel-powered heavy vehicles and many light vehicles are used for commercial purposes, rather than by private citizens, the economic impacts of their non-availability will be more significant than for petrol vehicles. However, the number of vehicles affected will be much smaller. Also, unlike petrol vehicles, sixty percent of sales of diesel vehicles are already new vehicles.

41. According to submissions, the proposed Rule would particularly affect small businesses and trades-people who use trucks in the weight range 3.5 – 12 tonnes, as relatively few of these vehicles are sold new in New Zealand.

42. Submissions also identified that the Rule would also have a significant effect on those who imported diesel vehicles for modification, such as those importing used buses which they convert into campervans for domestic use and for those importing specialised equipment such as water blasters, cherry pickers or rubbish collection vehicles where newer vehicles are especially expensive.

43. Because of the importance of diesel vehicle emissions to public health and air quality, the Ministry proposes to leave unchanged the proposed minimum diesel standard to be introduced set out in the consultation draft of the Rule. This would require the Japan 02/04 standard as the minimum from 1 January 2008 and the Japan 05 standard for diesel vehicles as the minimum standard in 2010. This is one year after this standard is proposed for new diesel vehicles in New Zealand. This proposal is consistent with Cabinet's decision that it is appropriate to place greater restrictions on the entry of diesel vehicles into New Zealand, compared to petrol vehicles [CBC Min (07) 2/2 refers].

44. An important consideration in restricting the import of used diesel vehicles is that it will ensure that any plans that promote modern, fuel efficient diesel vehicles do not lead to increased imports of older used vehicles.

<http://www.transport.govt.nz/assets/NewPDFs/Vehicle-Exhaust-Emissions-Rule-2007-Cabinet-Paper.pdf>

Annex 5

Entry and exit of vehicles from New Zealand fleet

Figure 5.1a Light passenger entry and exit

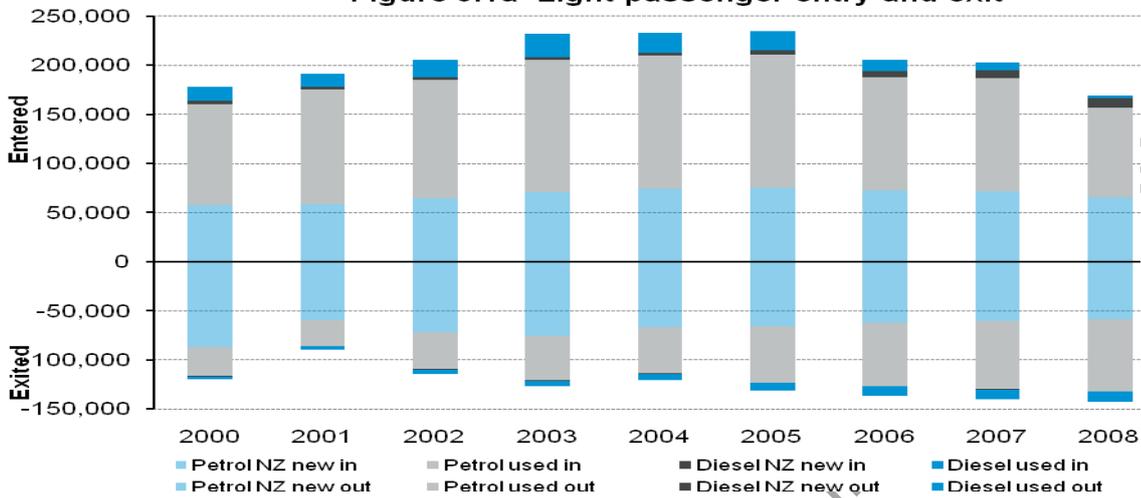


Figure 5.1b Light commercial entry and exit

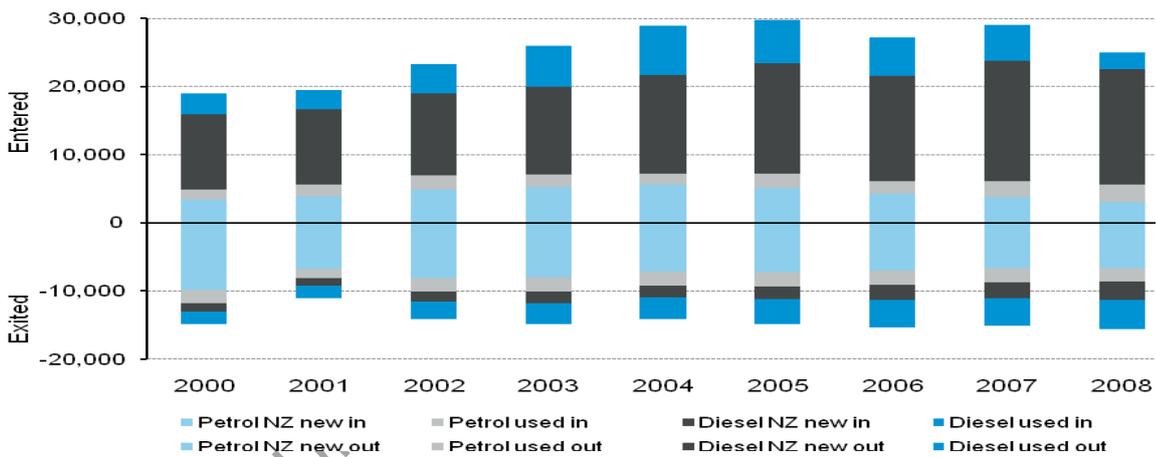


Figure 5.1c Truck entry and exit

