

Proactive Release

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

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

5 May 2022

OC220340

Hon Michael Wood
Minister of Transport

Action required by:
Tuesday, 10 May 2022

ADDITIONAL INFORMATION REQUESTED IN RELATION TO THE ASSISTANCE FOR THE TRIAL VEHICLE SCRAPPAGE SCHEME

Purpose

To answer your questions on our briefing on the financial assistance for the trial of the equity-oriented vehicle scrappage scheme (OC220136 refers), ahead of your meeting with officials on this topic on 10 May.

Recommendation

We recommend you note the answers we have provided to your questions on our briefing.



Ewan Delany
Manager, Environment, Emissions and Adaptation

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Hon Michael Wood
Minister of Transport

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Minister's office to complete:

- Approved
- Seen by Minister
- Overtaken by events
- Declined
- Not seen by Minister

Comments

Contacts

Name	Telephone	First contact
Ewan Delany, Manager, Environment, Emissions and Adaptation	s 9(2)(a)	
Gayelene Wright, Principal Adviser, Environment, Emissions and Adaptation	s 9(2)(a)	✓
Tracy Yandle, Senior Adviser, Environment, Emissions and Adaptation	s 9(2)(a)	

ADDITIONAL INFORMATION REQUESTED IN RELATION TO THE ASSISTANCE FOR THE TRIAL VEHICLE SCRAPPAGE SCHEME

- 1 You asked a number of questions on our previous briefing on the financial assistance for the trial of the equity-oriented vehicle scrappage scheme (OC220136 refers). This paper answers your questions in the order they were raised.

How does the proposal line up with the MTA's proposal?

- 2 Our consultation with the Motor Trade Association (MTA) on the scrappage scheme proposal has been positive and constructive. As you know the MTA, and the vehicle industry, are very supportive of a scrappage scheme but not a targeted one.
- 3 Apart from targeting, our proposal broadly aligns with the one that was developed from MTA's workshop with the vehicle and scrappage industries. However, the MTA has the following concerns.
 - 3.1 Low-emission vehicles will be in short supply. To address this, the scheme should subsidise efficient petrol and diesel vehicles, including those vehicles that are in the Clean Car Discount's "zero band" (vehicles that attract neither a fee nor a discount).
 - 3.2 Some low-income households may not be able to participate in the scrappage scheme because they may not be able to qualify for commercial loans. Some people would need loans to bridge the gap between the scheme's assistance and vehicle purchase price.
 - 3.3 Eligibility for the scheme could be determined on the basis of a vehicle's CO₂ emissions. For instance, there could be a criterion of 191 grams CO₂/km for vehicles to be eligible for scrapping. This would align with the top end of the "zero band".
- 4 In response to the MTA's concern about vehicle supply, we agree that the supply of electric vehicles (EVs) and plug-in hybrid electric vehicles (PHEVs) will be restricted. However, in our view the supply of used-imported hybrids will be sufficient. This is because Japan, which is our largest source of used-imports, prioritised the development of hybrids. In 2019, 1,472,281 new hybrids were sold on the domestic Japanese market. This compares with 21,281 new EVs and 17,609 new PHEVs.

We need to discuss the equity piece further and how far we cast the net

- 5 We proposed an income threshold for individuals that was pegged to the adult annual fulltime living-wage, which from 1 September 2022 would be \$49,192¹. To minimise use of the scheme by high-income New Zealanders, we also proposed having a household annual income threshold pegged to 85 percent of median household income. Using 2021 data this amount is \$75,758².

¹ This reflects the new hourly rate of \$23.65 that will be in effect from 1 September 2022.

² In the briefing the amount \$73,590 was given, which was 2020 data.

- 6 We also proposed having an adjustment for large families. Where a family has more than two children, the thresholds would increase by \$10,318 for each additional child under the age of 18.
- 7 With our proposed thresholds, 357,200 Aucklanders would be eligible to participate if the trial of the scrappage scheme were to occur in their city.
- 8 In considering whether to increase the proposed thresholds, to make more people eligible to participate in the scheme, New Zealand's income distribution is a helpful starting point. The graph in the Annex shows Inland Revenue's (IR) analysis of the number of people receiving annual salaries and wages between \$10,000–\$150,000³
- 9 Their graph shows a tight clustering of wage and salary incomes between \$30,000 and \$80,000. There is then a rapid drop-off in the numbers of people receiving higher levels of salaries and wages. This distribution suggests that there is a relatively small income gap between low-income and middle-income in New Zealand. Consequently, it will be challenging to expand eligibility without losing the scheme's focus on low-income New Zealanders.
- 10 However, one option would be to reframe the scheme as one focused on low to moderate income New Zealanders. To do this you could consider pegging the thresholds to 90 percent and 100 percent of median annualised weekly earnings or income.
- 11 Based on 2021 data the individual threshold would increase to:
- \$50,263 at 90 percent of the median annualised individual weekly earnings⁴
 - \$55,848 at the median annualised individual weekly earnings.
- 12 The household threshold would increase to:
- \$87,984 at 90 percent of the median annualised household weekly income⁵
 - \$97,760 at the median annualised household weekly income.
- 13 There is a difference between IR's data and the individual threshold values. IR's data is salaries and wages, while the individual threshold values also include earnings from self-employment.
- 14 Overall, our preference would be to keep the scheme targeted to low-income New Zealanders and if it is expanded then only to those with a moderate income. This could be achieved with income thresholds that are set at no more than the median annual earnings or income levels.

³ Earnings are any gross earnings received from any employer from which PAYE was deducted. This excludes: NZ Superannuation, taxable welfare benefits, student allowances, earnings-related ACC payments and shareholder employee salaries.

⁴ Household Labour Force Survey June 2021. Individual "earnings" covers income from wages and salaries, self-employment, and government transfers.

⁵ Household Labour Force Survey June 2021. Household "income" is the sum of income of all people in the household from wages and salaries, self-employment and government transfers. Private transfers and investment income are not included.

- 15 The risk with going further, is that the number of low-income people supported to buy low-emission vehicles will be reduced. This is because the scrappage scheme has a limited amount of funding.
- 16 Expansion could also inadvertently reduce the total number of people supported to buy low-emission vehicles. This is because low-income New Zealanders missing out on the scrappage scheme are less likely to be able to afford a vehicle that is subject to the Clean Car Discount. We address the question of diversion in the next question and answer.

Do you have any modelling or a guesstimate as to how much demand the trial scheme might divert from the Clean Car Discount?

- 17 We do not have any modelling on the level of vehicle purchases the trial scheme might divert from the Clean Car Discount. However, we suspect the level would be very low. This is because low-income New Zealanders with low levels of savings, or other realisable assets, would not be able to afford newly imported low-emissions vehicles. This is the core rationale for the proposed equity-oriented scrappage scheme.
- 18 We know from the Californian experience, with its equivalent of our Clean Car Discount, that low-income people tend not to participate in untargeted rebate programmes. A number of evaluations of the Californian Clean Car Rebate scheme have shown that most participants are from high-income households.⁶ This is the key reason why California introduced its Clean Cars 4-All programmes.
- 19 Aside from the equity issue, the scrappage scheme would only displace the Clean Car Discount where an eligible participant opts to buy a newly imported vehicle. This is because the Clean Car Discount does not apply to vehicles that have been previously registered in New Zealand. Whereas the proposed scrappage scheme's grants would be available on all low-emission vehicles for sale on the domestic market.

I assume that the e-bike/PT component can be mixed and matched with a vehicle subsidy rather than having to be one or the other?

- 20 We have been working with the assumption that the scrappage scheme's grant would be for the purchase of a replacement vehicle, OR for the purchase of low-emission alternatives. These alternatives would cover those provided by the scheme's participating delivery partners, and could include the purchase of e-bikes, use of public transport, and use of car share and car lease services.
- 21 We consider it unlikely that genuinely low-income participants would want to mix the types of assistance. This is because if they opt to buy a vehicle, they are likely to need the full amount of the vehicle grant. Under the proposed scheme, a replacement

⁶ Rubin, D., & St-Louis, E. (2016). Evaluating the Economic and Social Implications of Participation in Clean Vehicle Rebate Programs: Who's In, Who's Out? Transportation Research Record, 2598(1), 67-74.

Guo, S., & Kontou, E. (2021). Disparities and equity issues in electric vehicles rebate allocation. Energy Policy, 154, 112291.

vehicle would have to be less than 8 years old and have a safety-rating of 3 or more stars.

- 22 Nevertheless, if you favour enabling the mixing of the assistance types then this could be provided for. We had envisaged vouchers being given to people who opt for low-emission alternatives. These vouchers would be redeemable at the participating delivery partners. This could be widened to include the participating vehicle dealers.

My feeling on this (the relativity in subsidies between hybrids and PHEVs) is that we need very solid data before making a change. Any change should then be baselined into the CCD scheme (which we are able to review later in the year) and would then flow across based on the 1.4x multiplier.

- 23 We agree that we would need very solid data to recommend a change in the relative subsidy rates between PHEVs and hybrids. This will especially be the case for recommending any change to the Clean Car Discount's relativities, given it has been in operation since July 2021.
- 24 This is why we have asked Consumer New Zealand to expand their real-world fuel use comparison of PHEVs versus hybrids. The intention is that the results of this comparison will be available to inform Cabinet's decisions on the subsidy rates for the scrappage scheme.
- 25 We will also monitor international developments in this area. We note that the International Council on Clean Transportation has recommended that regulators take into account the real-world performance of PHEVs in designing incentive schemes. It has also recommended that manufacturers take steps to better reflect the real-world performance of PHEVs in their tests of vehicles for market release.
- 26 Apart from the real-world performance of PHEVs, the other reason why you may want to consider raising the relative grants or rebates for hybrids, is to respond to vehicle shortages. As we note in this briefing, we expect a wide range of hybrids to be available on our market. However, the supply of quality used-imported EVs and PHEVs is likely to be restricted.

Is there an argument for differentiation – i.e. grant for lower income, loan for middle income? Note that grants also support scheme simplicity

- 27 If eligibility were widened to middle-income New Zealanders, then there would be an argument for differentiating the assistance provided. This could be done through middle-income earners receiving part of the assistance as a loan. Alternatively, they could receive a lower-level grant.
- 28 As we have the Clean Car Discount, it would not be desirable to provide all of the assistance to middle-income New Zealanders as a loan. As with this setting, people would be less likely to participate in the scrappage scheme. They would be better off selling their old vehicle and buying a replacement vehicle with a Clean Car Discount rebate.
- 29 Regardless of the size of a loan component, our advice is to opt for grants for the trial scheme. As you indicate in your comment, grants support scheme simplicity. In comparison, loans would add administrative complexity and cost. This administrative

cost would reduce the amount of scheme funding that could be paid-out in assisting people to move to low emission transport.

- 30 However, a loan component for middle-income earners could be worth investigating if the scheme were to be expanded following the trial.

Instead of participant advisers could a simple information tool do the job? This would avoid the risk/perception that we are seen to be interfering and advantaging or disadvantaging given suppliers

- 31 We agree that the proposed participant adviser role could be seen as interfering in participants' decisions to the detriment of some vehicle dealers. There is also the risk of participant advisers personally favouring some dealers over others to the detriment of the participants.

- 32 We also agree that these risks would be removed by not having participant advisers and instead providing on-line resources for participants.

- 33 However, the Californian experience shows that the participant advisers play an important role in achieving the scheme's equity objectives. In California, the advisers have been critical to achieving a high level of uptake among disadvantaged communities through:

33.1 succeeding in raising awareness of the benefits of low-emission vehicles. This is important as EVs and PHEVs tend to be viewed as vehicles only the wealthy can afford. Consequently, knowledge about them in low-income communities is low

33.2 helping people apply and complete the process of scrapping a vehicle and securing a replacement

33.3 helping people overcome the language barriers to engaging with the programme.

- 34 We suspect that the circumstances could be similar in New Zealand. If they are, it is likely that uptake by low-income groups will be higher with the help of advisers.

- 35 In our view, it would be desirable to test whether advisers would add value in New Zealand. This could be done by advisers in one trial location and not in a second one. Instead, the second location could direct participants to on-line information.

Agree with a price cap around \$35,000 but want to examine the large vehicle issue carefully given impact on large low-income families

- 36 The price cap of \$35,000 will likely rule out participants buying new, large, low-emission vehicles. However, we expect a good range of large used-imported hybrids and large second-hand hybrid vehicles to be available.

- 37 The range will be largest for used-imported hybrids. As stated in paragraph 4, this reflects the priority Japan placed on the development of petrol hybrids, including hybrid versions of large sedans, vans and people-movers.

- 38 We already have a good supply of large hybrid people movers on our market, such as, the Nissan Serena hybrid, the Toyota Estima hybrid and the 7-seater station wagon Toyota Prius V hybrid. These vehicles sell below \$35,000 when they are 5 years and older.
- 39 However, the range of large EVs and PHEVs is restricted. There is now a 7-seater variant of the Mitsubishi Outlander PHEV available overseas, but it will be a few years until it is available here, either as a new vehicle or a used-import.
- 40 For EVs, the Nissan eNV200 van is available as a used-import with 7-seats from Japan, or the United Kingdom, and sells below \$35,000. Beyond this vehicle, there will be very few affordable large EVs until the second half of this decade. Seven-seater new EVs are currently expensive, selling for more than \$70,000. These vehicles will not become affordable as used ones until the second half of this decade.

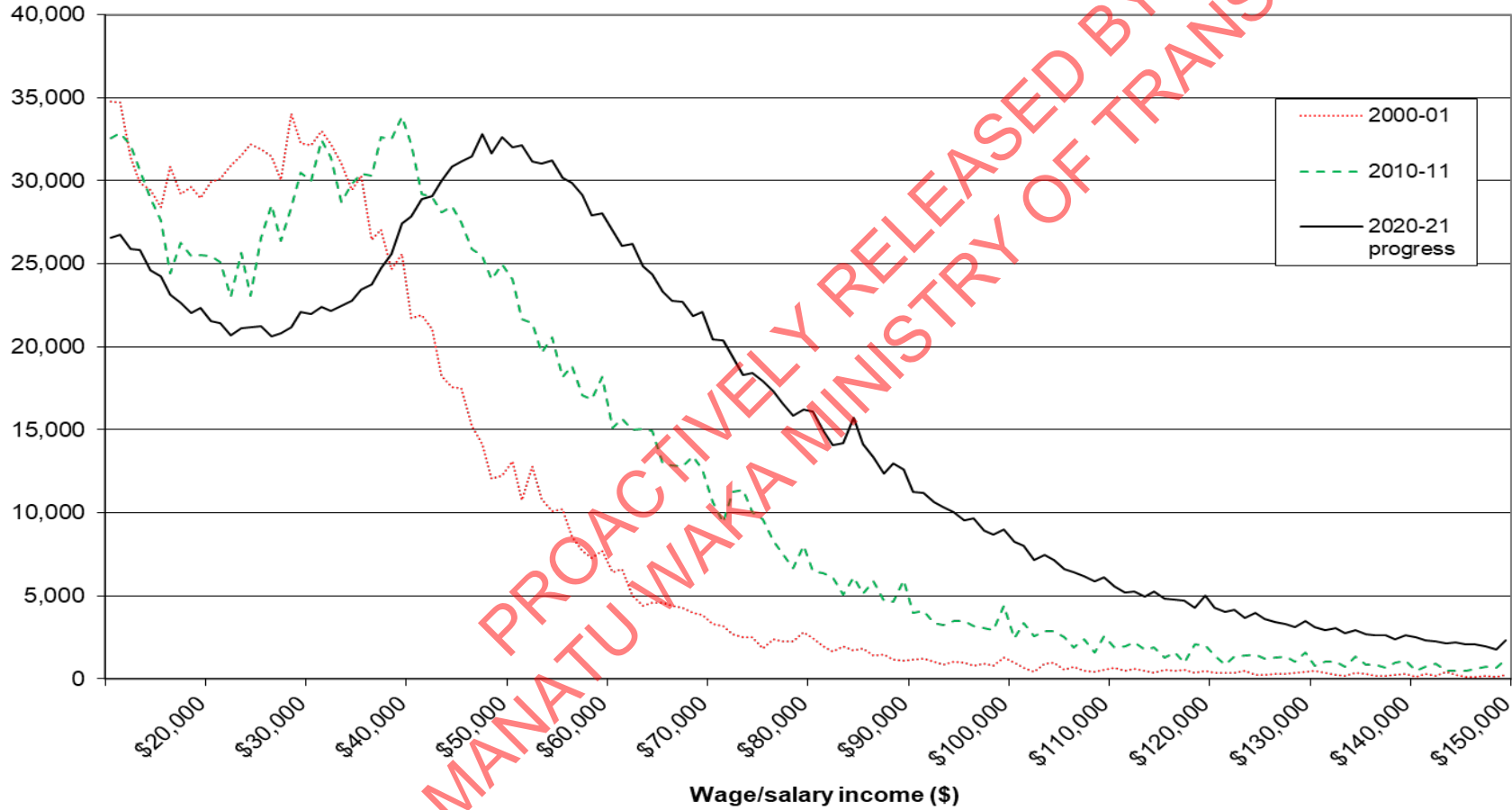
Agree with Clean Car Discount rebates not applying to vehicles subsidised through the scrappage scheme. I can't see any situation where this would make someone under the scrappage scheme worse off?

- 41 There is no situation where scrappage scheme participants would be worse off compared to if they had opted to buy a vehicle with a Clean Car Discount rebate. This is because the scrappage scheme's subsidies are 1.4 times those of the Clean Car Discount's rebates.

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ANNEX

Numbers of salary and wage earners with an annual income between \$10,000 - \$150,000



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