

[Budget Sensitive]

Minister of Transport

Cabinet Economic Development Committee

Clean Car Discount

Proposal

- 1 This paper seeks agreement to progress legislation to implement a Clean Car Discount. It is anticipated that the legislation would be in force in 2022. However, subject to Cabinet and Budget approval, rebates on electric vehicles could start from 1 July 2021, in advance of the full Clean Car Discount scheme.
- 2 This paper seeks agreement to the high-level design of the Clean Car Discount, which is a carbon dioxide (CO₂) emission reduction policy that places fees on the purchase of high CO₂ emission vehicles to fund rebates on the purchase prices of zero- and low-emission vehicles.
- 3 The paper also authorises the Climate Change Ministerial Group to make decisions on the size of rebates and fees, and on exceptions from fees. I will report back to Cabinet later this year with updates and to make final decisions where necessary.
- 4 The Clean Car Discount policy would not prevent the purchase of any kind of vehicle, but would help to incentivise consumers to choose low emission options, until their upfront cost becomes comparable to petrol and diesel fuelled vehicles. Consumers choosing high-emission vehicles would pay a higher price in recognition of the increased environmental and economic costs they are imposing; this would support giving rebates to consumers choosing cleaner vehicle options.

Relation to government priorities

- 5 This proposal is intended to be one of a number of actions taken in response to Parliament's declaration of a climate change emergency. It would also give effect to the commitment in the Labour Party's Clean Energy Plan to accelerate the electrification of the transport sector and to our Cooperation Agreement with the Green Party of "increasing the uptake of zero-emission vehicles". Development of this policy started in the last term of Government, led by the then Associate Minister of Transport Julie Anne Genter.
- 6 It would be one of a number of transport policies that could be included in the Government's first Emission Reduction Plan (Plan), which must be published by 31 December 2021. This Plan, led by the Minister for Climate Change, will outline the strategies and policies that will be used to achieve the first emissions budget for 2022–2025 and will be built on to deliver the second and third budgets (over the 2025–2030 and 2030–2035 periods).

Executive Summary

- 7 Low-emission light vehicles offer a substantial, achievable and cost-effective opportunity to decarbonise. It is critical to take immediate action to realise this opportunity.
- 8 A policy that increases demand for zero- and low-emission vehicles¹ is needed now in order to meet necessary reduction targets to transport CO₂ emissions. The Clean

¹ Zero emission refers to tailpipe emissions. There are still emissions associated with electricity generation, albeit much fewer, and the Government is separately pursuing a reduction in the emissions profile of electricity generation.

Car Discount is the best policy to achieve this rapidly and equitably, while minimising the cost to the Crown. The Clean Car Standard policy agreed to by Cabinet in January 2021 regulates the *supply* of low-emission vehicles, while this policy encourages *demand*.

- 9 In January 2021, Cabinet noted that the Clean Car Standard would only be achievable if further policies were advanced and I was asked to recommend what these further policies should be. The Clean Car Discount will assist purchasers to overcome the higher upfront price barrier of low-emission vehicles compared to traditional internal combustion engine vehicles.
- 10 The Clean Car Discount would work as a so-called ‘feebate mechanism’, placing a fee on high-emitting vehicles at the point of first registration in New Zealand to disincentivise purchase of them. Revenue from those fees would then be used to fund rebates on zero- and low-emission vehicles. There is considerable flexibility around the exact dollar amounts of rebates or fees that zero, low, and high emission vehicles would attract and when. Fee and rebate amounts would be recalibrated as often as annually. Cost-neutrality to the Crown over time makes the policy durable and sustainable.



- 11 I propose, that subject to funding being agreed in Budget 2021, rebates on electric vehicles commence from July 2021, as no legislative change is needed for this. Prompt implementation of rebates following a public announcement means businesses that sell low- and zero-emission vehicles avoid being placed into financial hardship while consumers delay buying cars until rebates commence, and it would help New Zealanders to afford cleaner cars sooner.
- 12 I propose that the full policy would be in force in 2022. Certain features of the policy will require legislative change, including imposing fees on high-emitting vehicles, and creating a requirement to display CO₂ emissions and fee/rebate information on vehicles for sale. I will therefore seek Cabinet approval to add this legislation to a related Bill on the 2021 Legislation Programme.
- 13 I intend some vehicles would be excluded from the policy:
 - 13.1 vehicles that have already been registered in New Zealand
 - 13.2 vehicles of social and historic value.

13.3 vehicles above a purchase price of \$80,000 (including GST and on-road costs) would not receive discounts for being zero/low-emission but would still attract fees if high-emitting. Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982

14 [REDACTED]

15 I am seeking Cabinet's agreement to key elements of the Clean Car Discount policy:

- 15.1 Whether rebates commence July 2021 or once the full legislative scheme is in force.
- 15.2 Authorise the Climate Change Ministerial Group to make final decisions on the level of the rebate to be issued on zero- and low-emission vehicles and determine purpose-based exemptions or discounts on the fees payable on vehicles that do not have feasible low-emissions alternatives;
- 15.3 Agree to include legislation for the Clean Car Discount in the Land Transport (Vehicle CO₂) Amendment Bill, to form a combined Bill with a priority of category 2 - must be passed in the year - that includes legislation required for the Clean Car Discount and the Clean Car Standard.

16 I consider advancing the Clean Car Discount to be both important and well-justified. Considerable analysis, debate, and public consultation occurred during 2019 and 2020 to rule out alternatives and to refine how this policy would best work. The policy is modelled on adapting policy from countries that have consequently gained greater traction of zero- and low-emission vehicles than New Zealand. A reliance on the Emission Trading Scheme, and the Clean Car Standard are insufficient because they do not resolve the primary barrier, which is that zero and low emission vehicles cost more to buy (often by between \$20,000 to \$40,000).

17 I have sought \$301.8 million of funding through Budget 2021 to advance this policy. This would be repaid within 10 years. Of this, \$6.8 million is needed for Waka Kotahi NZ Transport Agency to implement it. The bulk, or \$295 million, would be a revolving credit facility that supports month-to-month cashflow timing differences between issuing rebates and receiving fees from vehicle purchases.

18 Fully funded, the incremental cumulative impact of the Clean Car Discount from 2022 to 2050 is a reduction of between 2.6 and 9.2 mega tonnes of CO₂. The marginal abatement cost (MAC) per tonne of CO₂ ranges from -\$170 to -\$199. This means it would save the economy money rather than place costs on it. This is primarily due to the significantly reduced ongoing fuel costs that New Zealanders would pay by being able to afford to buy a zero or low emission vehicle through this policy. This makes the Clean Car Discount an effective and economically efficient policy to reduce emissions.

19 This policy would bring us closer to achieving Cabinet's target of 105g CO₂/km by 2025, though additional policies may still be needed to make this a reality. If a system-wide approach is taken to reducing transport emissions, New Zealand will be in a better position to follow other right-hand drive markets such as the UK and Japan who plan to phase out the importation of new internal combustion engine vehicles in 2030 and 2035 respectively.

Background

20 Transport emissions are large and growing, and a package of ambitious CO₂ emission reduction policies are needed to tackle this.

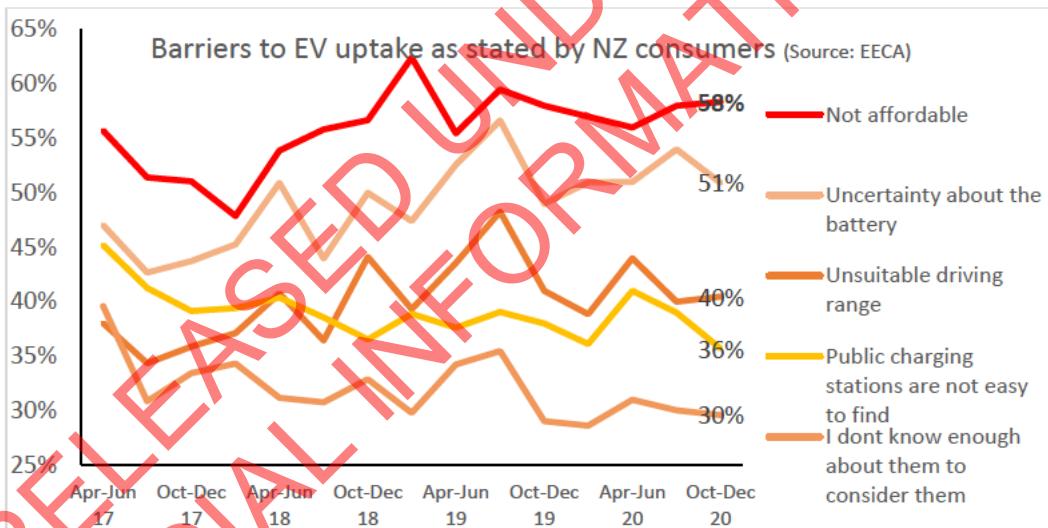
- 21 In 2019, following recommendations made by the Productivity Commission to the Government, the then Associate Minister of Transport Julie Anne Genter reviewed policy approaches on how best to reduce light vehicle CO₂ emissions. This led to a proposal to advance two Clean Car policies: a Clean Car Standard to stimulate supply, combined with a Clean Car Discount to stimulate demand. Both policies were consulted on, and feedback from the public and industry helped to refine their design.
- 22 In January 2021, Cabinet agreed to the first half of the wider policy – the Clean Car Standard – and adopted a target that regulates importers to reduce CO₂ emissions of vehicles entering New Zealand to 105g CO₂/km by 2025 – an ambitious reduction of 40% in less than five years. New Zealand is attempting to improve at a much faster rate than other jurisdictions like Europe and Japan which have already achieved our 2025 target. I noted to Cabinet that this target would only be achievable if further policies were advanced and I was asked to recommend what these further policies should be.
- 23 In this paper, I propose that Cabinet agree to the second half of the wider Clean Car policy – the Clean Car Discount. This policy will be a key platform of our climate action.
- 24 The Clean Car Standard target of 105g means the motor vehicle industry will be regulated to rapidly import significantly more zero- and low-emission vehicles or face large financial penalties. Zero- and low-emission vehicles have more technology and manufacturing costs, which are reflected in their higher purchase price. The majority of global vehicle sales are now covered by government policies that reduce purchase price of clean vehicles, in order to meet collective climate and air quality goals. New Zealand has no such policy, and until one is adopted, it is unlikely the Clean Car Standard target would be met, even with the best efforts of the motor vehicle industry and vehicle purchasers.
- 25 Later this year, the Government must agree to a number of Emission Reduction Budgets pursuant to the *Climate Change Response (Zero Carbon) Amendment Act 2019* and negotiate our ambition levels at the COP26 summit in Glasgow. The Climate Change Commission in its draft advice on the emissions budgets indicated reducing the upfront cost of purchasing light electric vehicles was a time critical necessary action to achieve the emissions budget. They identified either a feebate or a subsidy provided by the Government was necessary until electric vehicles reach price parity with internal combustion engines and that it needed to be implemented in the first budget period.

There is widespread support for a Clean Car Discount

- 26 In New Zealand, approximately half of CO₂ emissions come from transport, of which two thirds come from light vehicles. Transport emissions have been rising faster than other sectors, almost doubling between 1990 and 2020, and are forecast to continue to rise in the short-term given population growth. Fortunately, widespread use of low-emission light vehicles offers a substantial, achievable and cost-effective opportunity to decarbonise. It is critical to take immediate action to realise this opportunity.
- 27 A key difference between countries with low or high uptake of electric vehicles (and fuel-efficient vehicles) is the level of policy that adjusts purchase prices (and thus demand). In particular, successful countries impose fees or taxes on buying high emitting vehicles and provide discounts on low emission ones.
- 28 Uptake of electric vehicles today in New Zealand is low; approximately just two percent of monthly registrations of all light vehicles have been for electric vehicles over the past three years. That is below the world average (four percent in 2020), the average in Europe (10 percent in 2020), and well behind nations with strong transport

emissions policy. Several countries now experience months where electric vehicles comprise over 50 percent of monthly car sales, including Norway, Sweden, and Iceland. Many Western European markets are rapidly approaching that adoption rate, putting them on a trajectory where these countries could smoothly transition to phasing out new combustion vehicles over the next five to 15 years.

- 29 The Ministry of Transport consulted with the public and industry in 2019 to gauge levels of support and to refine its thinking about this policy. The consultation received 860 survey responses (87% support for the Clean Car Discount) and 196 email responses (70% support), together with 1,644 template emails from an email address set up by the New Zealand National Party that opposed placing fees on high emission vehicles. The support for the Clean Car Discount is consistent with ongoing consumer research by the Energy Efficiency and Conservation Authority (EECA), which identifies that the top barrier to electric vehicle purchase in New Zealand is the upfront cost, given new electric vehicles commonly cost \$20,000 to \$40,000 more than an equivalent fossil fuel vehicle.
- 30 EECA's research has found that a minimum \$5,000 discount on electric vehicles is needed in order to materially influence consumer behaviour. For comparison, under the Carbon Neutral Government Programme, funding from the State Sector Decarbonisation Fund is expected to provide up to \$30,000 to agencies towards the cost of purchase an electric vehicle.



- 31 The Motor Industry Association (MIA) and multiple new vehicle distributors are in favour of the Clean Car Discount, suggesting a discount in the range of \$7,000 to \$10,000 is necessary to achieve the 105g Clean Car Target. The used motor industry supports raising fees on internal combustion engine cars and providing grants for buying electric vehicles, but would prefer a different policy approach². A 2020 AA survey revealed three quarters of respondents supported the principle of raising prices on vehicles that do not meet an emissions target, with a quarter answering that such fees should fund the lowering of prices on more fuel-efficient cars.
- 32 The International Council on Clean Transportation (ICCT) is an independent non-profit policy research organisation that has published recommendations, case studies, and best practices on feebate systems³. We have considered the ICCT's advice in designing our scheme.

² The used motor industry suggested consumers should be able to withdraw funds from KiwiSaver to buy EVs.

³ <https://theicct.org/spotlight/feebate-systems>. A shift from CO₂ bands to a continuous line is an example of best practice we have taken on board following the public consultation and review of ICCT best practice.

- 33 Conceptually, feebates attempt to make people bear the social costs (in the case of fees) or receive the social benefit (in the case of rebates) of their vehicle choices. Consumers who purchase high-emitting vehicles prepay a fee in recognition of the increased environmental and economic costs they are imposing. These fees are then used to reward consumers who opt to buy vehicles that would contribute to lowering New Zealand's carbon emissions. There are, however, international trade obligations to consider with respect to rebates and caps in this type of policy.

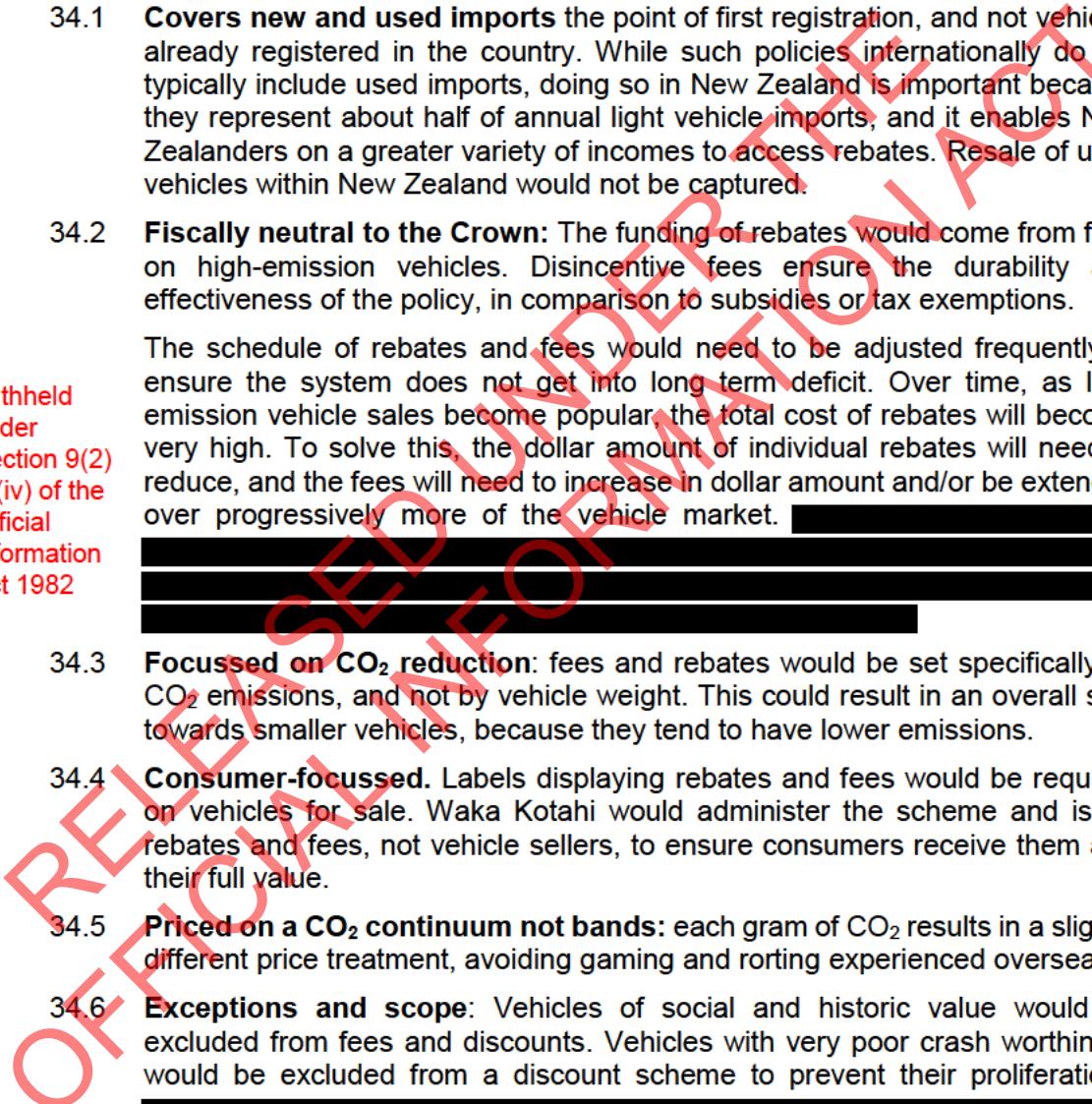
Design of the policy

- 34 I propose the Clean Car Discount be structured as follows:

34.1 **Covers new and used imports** the point of first registration, and not vehicles already registered in the country. While such policies internationally do not typically include used imports, doing so in New Zealand is important because they represent about half of annual light vehicle imports, and it enables New Zealanders on a greater variety of incomes to access rebates. Resale of used vehicles within New Zealand would not be captured.

34.2 **Fiscally neutral to the Crown:** The funding of rebates would come from fees on high-emission vehicles. Disincentive fees ensure the durability and effectiveness of the policy, in comparison to subsidies or tax exemptions.

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The schedule of rebates and fees would need to be adjusted frequently to ensure the system does not get into long term deficit. Over time, as low-emission vehicle sales become popular, the total cost of rebates will become very high. To solve this, the dollar amount of individual rebates will need to reduce, and the fees will need to increase in dollar amount and/or be extended over progressively more of the vehicle market. [REDACTED]

34.3 **Focussed on CO₂ reduction:** fees and rebates would be set specifically by CO₂ emissions, and not by vehicle weight. This could result in an overall shift towards smaller vehicles, because they tend to have lower emissions.

34.4 **Consumer-focussed.** Labels displaying rebates and fees would be required on vehicles for sale. Waka Kotahi would administer the scheme and issue rebates and fees, not vehicle sellers, to ensure consumers receive them and their full value.

34.5 **Priced on a CO₂ continuum not bands:** each gram of CO₂ results in a slightly different price treatment, avoiding gaming and rotting experienced overseas⁴.

34.6 **Exceptions and scope:** Vehicles of social and historic value would be excluded from fees and discounts. Vehicles with very poor crash worthiness would be excluded from a discount scheme to prevent their proliferation⁵. [REDACTED]

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34.7 **Purpose-based discounts or exclusions:** [REDACTED]

propose Cabinet authorise Climate Change Ministers to establish a fee
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⁴ Refer ICCT research on the French bonus/malus scheme.

⁵ Criteria would be established and agreed. This may be based on having 1 or 2 star safety ratings, an absence of specific safety features, a list of particularly unsafe makes and models, or another reasonable approach.

reduction or exemption regime for vehicles with no feasible low emissions alternatives if they are purchased for a specific business purpose.

- 34.8 **Price cap:** Vehicles above a price cap (proposed to be set to \$80,000, including GST and on-road costs) would be excluded from discounts, to avoid luxury vehicles receiving unnecessary subsidy, though such vehicles would still be subject to fees if they produce high CO₂ emissions. While \$80,000 is a significant amount compared to what many New Zealanders pay for petrol vehicles in the current market, this is a standard price of a new electric vehicle with long distance range. It may be possible to lower this price cap as electric vehicle prices drop over time.

- 34.9 **Lifespan:** [REDACTED]

[REDACTED] Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982

To ensure mid- to long-term emission reductions when individual rebate funding may be limited in size and influence, I will add a provision to the Clean Car Standard now (that can be used later, if necessary) to require a minimum proportion of vehicles imported by suppliers to be zero-emission⁷. Without this, there is a risk of progress slowing in later years.

[REDACTED] Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982

- 34.10 **Labelling:** A critical component of the Clean Car Discount is the clear display of information about a vehicle's emissions and the amount of fee or discount applying to that vehicle. This is key information that could influence consumer choice at the time of purchase.

I am therefore proposing that this key information be displayed at the point of sale, and in electronic form on any vehicle sales website, including a vehicle dealer's own website. This would be in addition to the star rating and fuel economy information that is currently required to be displayed on a Vehicle Fuel Economy Label (VFEL) to enable consumers to compare vehicles on a consistent basis.

I see value in building on the existing labelling requirements, and plan to work with the Minister of Energy and Resources to amend the VFEL requirements to include Clean Car Discount information. Improvements to the enforcement and compliance regime may also be necessary.

- 35 I recommend that Waka Kotahi be the implementation agency because they hold a relationship with vehicle purchasers through the motor vehicle register. Waka Kotahi commenced implementation work during the last term of Government in anticipation of the policy quickly progressing. They would need about three months implementation time to be in a position to manually issue rebates on electric vehicles, and, subject to legislation being in place, about six more months to implement the

⁶ Due to emissions from electricity or hydrogen production as well as vehicle and battery manufacture.

⁷ This is known as a Zero Emission Vehicle (ZEV) mandate and is already in place in several jurisdictions, though they contain various flexibility concessions. Europe has a target of 15% by 2025, California rising from 4.5% in 2018 to 22% in 2025, and China is believed to require between 2% and 10% as of 2020.

processes needed to issue fees, add rebates to low emission vehicles, and build other policy features.

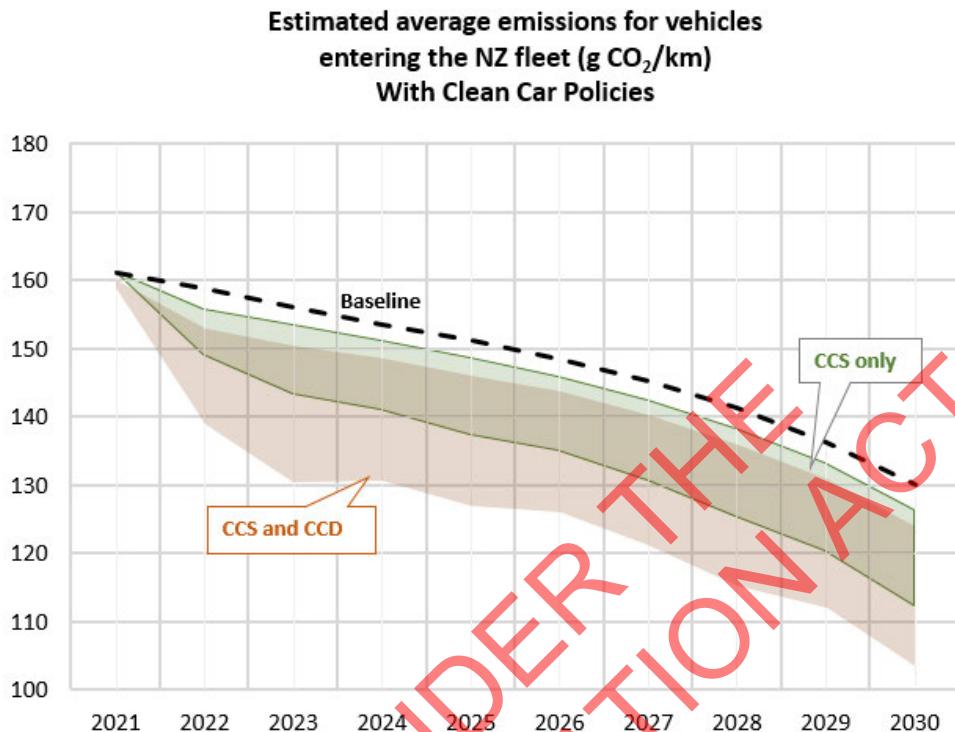
Original Clean Car Discount Design <i>Proposed 2019 with revised modelling:</i>	Recommended Clean Car Discount Design
<p>\$36.8m Repayable Loan</p> <p>This is based on \$6.8m implementation + \$30m for rebate funding and operating.</p> <p>(In line with 2019 public consultation and <i>Clean Car Discount</i> in Budget 2021 bid)</p>	<p>\$301.8m Repayable Loan</p> <p>This is based on \$6.8m implementation + \$295m for rebate funding and operating.</p> <p>This supports increasing the size of rebates, a temporary concession to utes, and enables rebates to start sooner.</p>
<p>The incremental cumulative impact of the Clean Car Discount from 2022 to 2050 is a reduction of between 1.7 and 6.1 mega tonnes⁸ of CO₂</p> <p>The incremental net present value (NPV) ranges from \$220m to \$990m, and the incremental benefit to cost ratio (BCR) ranges from 1.7 to 6.1. The marginal abatement cost (MAC)⁹ per tonne of CO₂ ranges from -\$130 to -\$165.</p>	<p>The incremental cumulative impact of the Clean Car Discount from 2022 to 2050 is a reduction of between 2.6 and 9.2 mega tonnes of CO₂.</p> <p>The incremental net present value (NPV) ranges from \$430m to \$1,830m, and the incremental benefit to cost ratio (BCR) ranges from 2.3 to 3.5. The marginal abatement cost (MAC) per tonne of CO₂ ranges from -\$170 to -\$199.</p>
<p>Benefits:</p> <p>Less funding required.</p> <p>Consistent with original consultation document.</p>	<p>Benefits</p> <p>Greater CO₂ reduction. More consistent with 2030 and future climate goals. (Subject to final policy settings)</p> <p>Enables rebates from 1 July 2021.</p> <p>Enables temporary concession on utes.</p> <p>Rebates on clean vehicles can be larger and have greater effect.</p> <p>Enables greater deficits to occur whether forecast (e.g. to support immediate rebates) or not (due to better than expected uptake of clean cars).</p> <p>The larger repayable loan enables a greater level of year 1 deficit possible ahead of later surplus position.</p>
Risks and negatives:	Risks and negatives:

⁸ High-end estimates assume behavioural responses are around 4 times higher than the low-end estimates.

⁹ A marginal abatement cost is a measure of the cost-effectiveness of the policy intervention in reducing GHG emissions. It is calculated by dividing the net present value (NPV) of the intervention with the expected reduction in emissions from implementation of the intervention. When the estimated MAC is negative, it indicates the policy intervention has a net benefit from implementation.

<p>Rebates could easily exhaust all funding available because it is limited to a maximum \$30m cashflow deficit. Consumers would be subject to lolly-scramble effect where rebates are not available throughout year (This occurred in The Netherlands in 2020, where rebates were exhausted in 8 days because the pool was too small).</p> <p>Rebates on clean vehicles would be smaller and have lesser effect.</p> <p>Lower CO₂ abatement. Less consistent with 2030 and longer-term emissions targets.</p> <p>Rebates would begin six to 12 months after policy is announced, meaning electric vehicle sales would stagnate for the rest of 2021</p> <p>Requires income from day one to prevent exhausting rebate funding. Rebates could not commence earlier than fees, and fee would remain higher (Concessions on utes not recommended.)</p>	<p>Still some risk that funding level is exhausted, if consumer interest in clean cars greatly exceeds expectations, and/or if level of fees are set too low.</p> <p>If rebates commence six months before fees commence, the cost of those initial six months of rebate is estimated to be approximately \$80m.</p> <p>In addition, Waka Kotahi indicates a need for a small additional operational spend. This makes it slightly harder for the policy later achieving cost neutrality (unless this additional funding is not to be repayable).</p>								
<p>Example year one settings and resulting outcomes:</p> <p><i>Illustration only – actual fees subject to further analysis and discussion.</i></p> <p>Rebates: \$5000 (new) (<i>originally \$8000</i>)¹⁰ \$2600 (used) (<i>unchanged</i>)</p> <p>Max Fee: \$3000 (new) (<i>unchanged</i>) \$1500 (used) (<i>unchanged</i>)</p>	<p>Rebates on electric vehicles for the first six months are set out in paragraph 41.</p> <p>Graduated rebates (for electric vehicles and fuel efficient vehicles) and fees would be expected to apply for the 12 months which follow, in principle as follows, but subject to further analysis:</p> <table> <tr> <td>Rebates:</td> <td>\$7500 (new) (<i>originally \$8000</i>)</td> </tr> <tr> <td></td> <td>\$3000 (used) (<i>originally \$2600</i>)</td> </tr> <tr> <td>Max Fee:</td> <td>\$3500 (new) (<i>originally \$3000</i>)</td> </tr> <tr> <td></td> <td>\$1500 (used) (<i>unchanged</i>)</td> </tr> </table> <p>These figures do not deliver full price parity between electric vehicles and combustion vehicles because that would require discounts to be triple this size, and there would be insufficient funding from fees to accommodate this. These figures are still likely to influence consumer buying behaviour.</p>	Rebates:	\$7500 (new) (<i>originally \$8000</i>)		\$3000 (used) (<i>originally \$2600</i>)	Max Fee:	\$3500 (new) (<i>originally \$3000</i>)		\$1500 (used) (<i>unchanged</i>)
Rebates:	\$7500 (new) (<i>originally \$8000</i>)								
	\$3000 (used) (<i>originally \$2600</i>)								
Max Fee:	\$3500 (new) (<i>originally \$3000</i>)								
	\$1500 (used) (<i>unchanged</i>)								

¹⁰ Original figures are those publicly stated in the 2019 consultation.



Scenarios 1 and 2 both sit within the orange range for Clean Car Discount (CCD) shown above. Absent further policy change, under a best-case scenario, these two policies deliver 105g by 2030, which is five years later than targeted. In order to bring this date earlier:

- It is possible, for example with higher fees being imposed or via an additional requirement on suppliers to sell a certain minimum quantity of zero-emission vehicles, for the Clean Car Standard/Discount mix to reduce a greater amount of emissions.
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED] Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982
 - A faster transition may also occur depending on how manufacturing prices on electric and hybrid vehicles fall and how supply increases. There is, however, a finite supply of electric and fuel-efficient vehicles available and some risk that the 105g goal may not be achieved by 2025 if manufacturers and importers do not supply sufficient clean vehicles to New Zealand. For this reason the Clean Car Standard has a review of target levels in 2024.

~~Both scenarios:~~

- Assume the Clean Car Standard is in place from 2022.
 - Are reliant on fees and designed to be cost neutral over several years.
 - Over the course of the decade, given clean cars sales (and thus rebates) will increase,
EITHER
rely on **fees increasing** significantly to maintain rebates at original level
(accelerating CO₂ reduction), but as it is not clear whether the market would support those fee increases, our model above has not assumed increases.
OR
rebate reducing each year if fees are not increased (decelerating CO₂ reduction).

The original consultation assumed that rebate levels halved between 2021 and 2028 however updated electric vehicle modelling shows that rebates may need to fall to even lower levels if fees remain at year 1 levels. (*The graph and figures on the prior page are modelled on this option*)

- [REDACTED]

Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982

Choices to be made

- 36 I seek Cabinet decisions on specific details set out below about the policy around timing, pricing, and concessions.

Timing

- 37 Commencement of the rebate should be done as soon as practical after it would be announced. If there is a long time gap between the announcement of the policy and rebates commencing, there is a risk that sales of electric vehicles will be depressed as people wait for the policy to be implemented. This poses particular problems for the cash flow of importers that focus on electric vehicles, and their ability to place the orders needed to secure vehicles for importation.
- 38 In 2019, there were around 7,000 sales of electric vehicles in New Zealand. In 2020, when plans to introduce a Clean Car Discount were publicised widely, this dropped to 5,495, in part due to Covid-19. Based on sales from January-March 2021, the Ministry of Transport expect around 7,000 electric vehicles to be sold in 2021, but forecast that this could drop to 2020 levels if rebates are announced but not implemented, or up to double to 15,000 if rebates are introduced in July 2021 (subject to supply).
- 39 Starting the rebates in advance of the fees would also provide an opportunity to build social license for the scheme and for people to better understand it before the fees come into place.
- 40 The decision to issue rebates on zero- and low-emission vehicles can be taken by Cabinet now, as no legislative amendments are required to issue a government grant. Legislation is required to establish the fund whereby fees imposed on high emission vehicles will generate the revenue to fund rebates on zero and low emission vehicles. Regulations need to be in place to impose the fees on high-emission vehicles. Decisions around when to commence rebates will affect the short-term cost profile for the policy, but either option would be revenue-neutral within a small number of years. Decisions on the timing of the rebate would also affect the impact on short term electric vehicle sales, as discussed in the table below:

Rebate Timing Option 1:	Rebate Timing Option 2:
Issue rebates from 1 July 2021 and impose fees once legislation is in force (RECOMMENDED)	Issue rebates and impose fees in 2022 (once legislation is in force)
This option enables sales of zero and low emission vehicles to lift rather than stagnate following the policy announcement.	This option risks sales of zero and low emission vehicles plummeting while buyers await rebates to start.

<p>It could occur as soon as there is Budget approval, as no legislative change is needed to issue a rebate in the form of a Government grant.</p> <p>Waka Kotahi could implement the rebate with very short notice (three month lead time) using a simpler and more manual process.</p> <p>Waka Kotahi would require a small amount of funding for the period April to June 2021, in addition to operational funding from July 2021.</p> <p>The initial arrangements of rebates would need to be simplified. A fully electric vehicle would get a specific figure and a plug in hybrid a reduced level. Imported used vehicles could receive a smaller rebate than new. Fuel-efficient vehicles and hybrids would not initially receive a rebate.</p> <p>In 2022, once the legislation is in force, graduated rebates on fuel efficient cars could commence, together with fees on high-emission vehicles.</p> <p>It would require borrowing a much larger amount of money in year one given revenue can only be collected once the legislation is in force.</p> <p>It could still be revenue neutral by income collected in future years.</p>	<p>It announces the policy but rebates would not be issued until the full legislative scheme is in force by 2022.</p> <p>This would put financial strain onto businesses that exclusively or significantly focus on selling low- or zero-emission vehicles.</p>
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The level of rebate will change over the life of the scheme

- 41 Choices would need to be made quickly on their exact dollar value if rebates are to commence in July 2021. I would propose that they be set as follows, noting that this is only possible with a large funding pool as described by this paper:

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

Figures are exclusive of GST

- 42 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. Changing rebate levels fee levels or the emissions level above which fees apply, all would assist with repaying the starting capital for the scheme. International feebate systems are usually updated every one to two years. 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 adjusted. Adjustments would take into consideration:

- 42.1 Trending the scheme to surplus and repaying the Crown Loan within ten years.
- 42.2 Incentivising purchase of zero and low emission cars in the short term, and in particular exerting pressure on market segments where supply of vehicles allows this.
- 42.3 Discouraging high emitting vehicles, for example by introducing fees at progressively lower CO₂ emission thresholds, giving consideration where there is a lack of low emission alternatives for specific use-cases.
- 42.4 Revising exceptions and design decisions to reflect changes in market behaviours and the types of vehicles available.
- 42.5 Changes to international and domestic climate ambition, and the plans of vehicle manufacturers.
- 42.6 The need to make only small, iterative changes that avoid 'shocking' the market.

Purpose-based discounts or exclusions

- 43 The high sales volumes combined with very high emissions levels of utes with internal combustion engines contribute to significantly raising New Zealand's average vehicle emissions. Unfortunately at this time there are no hybrid or fully electric utes available, though these are expected to arrive in the market within one to two years. While many utes are purchased for productive 'workhorse' use, the rapid acceleration of uptake shows they are commonly bought for lifestyle. Many popular new utes now sell for over \$60,000, suggesting buyers would not be greatly sensitive to a small fee. The popularity of utes in New Zealand is incompatible with transport decarbonisation, until such time as low and zero emission utes are readily available.
- 44 Some buyers may be able to instead select SUVs and vans, 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 concession is justified.
- 45 The Ministry, Waka Kotahi and Ministry for the Environment recommend that no concession be given because of the considerable adverse environmental and health impacts, notwithstanding the lack of alternatives currently in the market. This would also reflect the speed with which we must all adjust in order to decarbonise transport. The Green Party has indicated they agree with this view.
- 46 However, if a concession is applied, it should be as time-bound, limited in scope, and limited in financial value as possible. Any concession would reduce income to the scheme and could initially put it in deficit.

47 [REDACTED]

[REDACTED] | For example, one option may be a 50 percent reduction to a fee to farmers, available for a limited time such as 24 months, and subject to certain conditions, such as:

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- 47.1 The provision of a Farm Environment Plan (FEP)¹¹ to Waka Kotahi, and,
 - 47.2 The vehicle is below a prescribed CO₂ 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 have to pay full fee.
 - 47.3 As utes become available in lower emission and zero emission vehicles, this CO₂ threshold may lower¹².
 - 47.4 Agrees not to resell the vehicle for a period of 24 months. This may be difficult to enforce, however Waka Kotahi will look to develop a system in which the buyer or seller would pay the original 50% balance of the fee if the vehicle is sold sooner. Waka Kotahi would need to be empowered with investigation and offence provisions¹³. I would also impose and monitor a limit of how many utes a single business could buy with discounted fees.
- 48 I intend to work with the Climate Change Ministerial Group to finalise the details of a purpose-based discount or exclusion.
 - 49 Given that the availability of utes that attract a discount is likely to improve within the next one to two years any concession would be time limited and may reduce in scope over time.

The Clean Car Discount will need funding to progress

- 50 A repayable loan of \$301.8 million, repaid by revenue in the scheme, is being sought through the Budget 2021 process for the following:
 - 50.1 \$6.8 million in the coming fiscal year for Waka Kotahi for implementation.
 - 50.2 \$295 million to fund the cashflow deficits for moments in time where more rebates and internal costs are paid than fees collected, the size of which impacts how effectively the policy can operate, with Waka Kotahi permitted to spend up to \$8.0 million per year in operating costs (excluding depreciation and capital charge costs),
- 51 As part of the above, if rebates are to commence in July 2021, Waka Kotahi estimates it would spend up to \$713,650 opex for implementation (to be approved in April and be spent by 30 June 2021) and \$888,750 opex for operating the period July to December 2021. In addition, some implementation work has occurred to date which is being sought within paragraph 49.
A 'specific reserve', which acts like a bank account, will be administered by Waka Kotahi to track the scheme's accumulated funding and spending.

Why have other options been ruled out?

- 52 I have carefully considered whether other policies could be more effective than a Clean Car Discount, either in isolation, or as a package.
- 53 The Emissions Trading System (ETS) already captures revenue from owners of petrol and diesel vehicles. At present prices, this translates to \$70 per year on an average vehicle, which is too small to have a meaningful effect on vehicle purchasing behaviour. The cost of petrol and diesel will increase as the price of carbon units

¹¹ A FEP is held by over 3000 farms today and is likely to be mandatory in coming years. It can be used as a simplistic but not fool-proof method to identify a business as a farm, as there is no centralised database of farming businesses.

¹² Preliminary analysis suggests that this level would be around 200g CO₂/km (NEDC test) and would reduce, particularly when hybrid and electric utes are widely available.

¹³ A similar provision exists today on Special Interest Vehicles, with a no resale period of 4 years.

increases. If the carbon price were to increase ten-fold, thereby generating a \$700 per year disincentive on driving a vehicle powered by fossil fuels, consumers may then seek out vehicles that do not consume fuel. However, the ETS would not make electric vehicles any cheaper to buy; they would remain expensive and out of reach for most New Zealanders. I note also that Europe also has a mature ETS and vehicle CO₂ standard but many member states have vehicle feebate policies to ensure low emission vehicles are made more attractive to purchase. There after however, differences in the European market from New Zealand in both manufacturing and import profiles.

- 54 A subsidy funded by general taxation is not recommended because it would not disincentivise purchasing high-emission vehicles, and it externalises the costs of purchasing such vehicles. The disincentive effect of fees is modelled to provide as significant a role in reducing emissions as the incentive effect of discounts on clean cars. Gains are still made when an owner of a large SUV upgrades to a fuel-efficient model, and a subsidy alone would not provide such encouragement, but fees on the highest emitting models would.
- 55 A subsidy also risks being expensive for the Crown and the public, and thus prone to being terminated as soon as the volume of vehicles it addresses rises, reducing its ability to transition the market from fossil fuel to zero emission vehicles.
- 56 Representatives of the motor industry have suggested that there is already a fee being placed on high-emitting vehicles through the Clean Car Standard. However, the intention of that policy is that importers balance low emitting vehicles against high emitting vehicles so that, as a whole, the size of fees ought to be low.

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- 58 I am also considering the continuation of the exemption of road user charges on electric vehicles. They constitute about \$800 of savings annually to a motorist, making electric vehicles more financially attractive to drive, but it relies on New Zealanders being able to afford them in the first place.
- 59 Finally, I have considered whether relying on only the Clean Car Standard would suffice. International literature suggests that, before the end of this decade, manufacturers will be able to build electric vehicles for the same price as they can build fuel vehicles, after which point there may be little reason for the government to intervene in their pricing. The problem with this is that New Zealand does in fact need to reduce emissions significantly this decade to have any hope of reaching our 2050 net zero emissions target, and so we need to adopt great numbers of low emission vehicles before they reach manufacturer price parity. New Zealanders will not be able to buy large numbers of electric vehicles this decade while they have such high price premiums. This point is stressed by the Climate Change Commission's draft advice, which models that more than 50% of monthly vehicle sales need to be electric later this decade. As illustration, that is a jump from about 6,000 electric vehicles bought in 2020 to about 150,000 electric vehicles to reach a 50% share.

- 60 I am therefore convinced the Clean Car Discount is the right tool for the job. I note that it is a specific recommendation of the Productivity Commission¹⁴ and the Climate Change Commission¹⁵, and a number of further independent academic and consultant reports, as well as the Motor Industry Association. It will be almost impossible to meet the Climate Change Commission's proposed targets without a significant conversion to electric vehicles.

How GST would be applied to fees and discounts

- 61 Under the *Goods and Services Tax Act 1985* (GST Act), GST will apply to any fees imposed under the Clean Car Discount scheme. This is because the imposition of fees would be empowered by section 167(1)(j) of the *Land Transport Act 1998*, and the GST Act¹⁶ deems fees imposed by regulations made under that section to be subject to GST. Other vehicle registration fees are also subject to GST.
- 62 The GST Act also requires GST-registered businesses to return GST on government grants and subsidies that they receive¹⁷. This means that a discount provided to a GST registered person (other than a public authority) will be subject to GST, while a discount provided to any other person will not be subject to GST. This is consistent with the GST treatment of other government grants, and ensures that the purchasing power of GST-registered recipients is the same as people who are not registered for GST.
- 63 I have asked transport and tax policy officials to review the GST treatment of the fees and discounts to ensure that it is appropriate for the efficient operation of the Clean Car Discount scheme and the GST system.
- 64 Dollar amounts of fees or rebates in this paper are GST-exclusive figures.

Legislation required

- 65 Amendments to the *Land Transport Act 1998* and the *Land Transport Management Act 2003* are required to support the development of the Clean Car Discount and associated regulations.
- 66 I have received advice from the Ministry of Transport to support the need for legislation. In addition, our assessment of existing legislation shows that these proposals would not fit well into any existing legislation, so new legislation is preferred.
- 67 Regulations will be required to fully implement the Clean Car Discount policy by imposing fees on the purchase of high emission vehicles, and will need to be developed alongside a new bill.
- 68 I seek that Cabinet agree to include the legal framework for the Clean Car Discount in the Land Transport (Vehicle CO₂) Amendment Bill, to form a combined bill with a priority of category 2 (must be passed in the year) that includes legislation required for the Clean Car Discount and the Clean Car Standard. The implementation timeframes mean a truncated 2 month select committee timeframe will be required to

¹⁴ https://www.productivity.govt.nz/assets/Documents/lowemissions/4e01d69a83/Productivity-Commission_Low-emissions-economy_Final-Report_FINAL_2.pdf recommends the Government "introduce a 'feebate' scheme, in which importers would either pay a fee or receive a rebate, depending on the emissions intensity of the imported vehicle" (2018)

¹⁵ <https://www.climatecommission.govt.nz/get-involved/our-advice-and-evidence/> (2021 Draft Advice for Consultation) recommends by 2024 to "As part of a policy package introduce a fiscal incentive, such as a feebate or subsidy, to reduce the upfront cost of EVs until such time as there is price parity with ICEs"

¹⁶ see section 5(6AAB) of the Goods and Services Tax Act 1985

¹⁷ see section 5(6D) of the Goods and Services Tax Act 1985

support the legislation being passed in 2021 to enable a 1 January 2022 commencement date for the Clean Car Discount.

Consultation

- 69 Public consultation on the discussion document was carried out between 9 July and 10 September 2019. There was strong support for the Clean Car Standard from 85 percent of the 967 submitters who responded to the discussion document question: "Is a Clean Car Standard appropriate for New Zealand?" There was also strong support for the Clean Car Discount from 79 percent of the 1,043 submitters who responded to the discussion document question: "Is a Clean Car Discount appropriate for New Zealand?" A National Party of New Zealand email campaign focussed on the Clean Car Discount provided three emails supporting the Clean Car Discount and 1,641 opposing it.
- 70 Over 30 written submissions expressly commented on the need to bring implementation forward. Environmental concerns focussed on the fact that New Zealand is lagging well behind other countries in reducing road transport emissions, and that New Zealand is seen as a dumping ground for high-emission vehicles that few other countries will take.
- 71 The motor vehicle industry is divided in its view. Distributors of new vehicles strongly support this policy. The VIA, representing much of the used vehicle industry, would instead prefer an alternative based upon collecting carbon tax and allowing consumers to withdraw KiwiSaver funds to buy clean vehicles.
- 72 The following agencies have been consulted in the development of this paper: Waka Kotahi, Treasury, Ministry for the Environment; Department of Conservation; Department of Internal Affairs, New Zealand Defence Force; Ministry of Social Development; Ministry of Foreign Affairs and Trade; Ministry of Business, Innovation and Employment; New Zealand Customs Service; Ministry for Primary Industries; Inland Revenue Department; and the Energy Efficiency and Conservation Authority. The Department of Prime Minister and Cabinet and Te Puni Kokiri have been informed.
- 73 Waka Kotahi supports this Cabinet Paper, and have contributed to fresh design elements, such as removing discounts on less safe vehicles. They note that the implementation timeframes are challenging. They note concerns around the poorer emission reduction outcomes and the complexity associated with providing a concession to farmers. *Withheld under Section 9(2)(g)(i) of the Official Information Act 1982*
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already the only significant sector excluded from emissions pricing and hybrid and electric utes are likely to be available within 1-2 years. They consider costs of administering an exemption system that only covers a relatively small section of consumers, for that short period of time, are likely to outweigh any benefits.

Treasury Comment

- 77 The Treasury has reviewed this paper and offered the following comments:
- 77.1 The Treasury considers more clarity around policy design is needed to support decision-making on the Clean Car Discount. In particular, it is unclear who would receive the rebate and who would pay the fee. This impacts on the behavioural assumptions in support of the modelling, the fiscal impacts, and GST treatment. The decision-making processes for updates to fee and rebate levels, or if additional funding is needed, are also unclear.
 - 77.2 The Treasury agrees that emissions from transport will need to reduce and that the Government will need to focus on this as part of its forthcoming Emissions Reduction Plan. However, the forecast emissions reductions from the Discount are modest and the actual impacts are uncertain given dependencies on behavioural assumptions and a lack of clarity on how this initiative interacts with other measures, including the Emissions Trading Scheme.
 - 77.3 We have been unable to comment in the timeframes available on the accuracy of the emissions reductions costings and modelling on the proposed policy settings and the additionality of these settings in achieving emissions reductions beyond a status quo approach.
 - 77.4 We are unable to determine whether the feebate will be fiscally neutral, as key parts of the policy have not been developed. Given the policy is intended to operate as a disincentive to the purchase of high emissions vehicles, and that price parity is expected to be achieved over the decade, we are not confident that the fee revenue will be sufficient to cover the costs in full. The paper assumes that fees will be set at such a level to assume repayability but it is unknown when cost neutrality will occur, if ever, which presents a fiscal risk to the Crown.
 - 77.5 If Ministers wish to proceed with a Clean Car Discount scheme, we recommend that Cabinet agree to progress such a scheme in principle, and make final policy and funding decisions once the policy options have been properly scoped, modelled and costed.
- 78 I do not agree with these reservations. The Clean Car Discount has been the subject of highly detailed analysis and modelling, including a regulatory impact statement, social impact assessment, cost-benefit analysis, stakeholder consultation and external peer review since 2019. This analysis has been shared and discussed with Treasury officials at various stages of policy development to provide assurances around these points.
- 79 Ongoing updates to the fees and rebate levels will support the policy being fiscally neutral, and Annex 1 provides an example schedule of adjustments to ensure the loan is repaid in time. On these draft assumptions, it would take 6-8 years to bring the scheme to a point of fiscal neutrality well within the 10 year years required meaning even if there were changes in assumptions this is unlikely to affect the ability of the scheme to be fiscally neutral over the next 10 years. I am confident to proceed here with the overall policy design, begin with rebates from July, and the full policy from 2022.

- 80 If fully funded, the Clean Car Discount is expected to have a Benefit Cost Ratio of 1.8 - 3.5 and a Net Present Value of \$180m to 1,830m. The expected emissions abatement to 2050 is expected to be between 2.6 and 9.2 mega tonnes, representing a crucial and cost-effective contribution to transport decarbonisation.

Foreign affairs implications

81	[REDACTED]
81.1	[REDACTED]
81.2	[REDACTED]
81.3	[REDACTED]
81.4	[REDACTED]
81.5	[REDACTED]
81.6	[REDACTED]

¹⁸ A proposed addition to the Clean Car Standard that could be utilised at a later date.

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1982

Cost Benefit Analysis and Regulatory Impact Statement

- 85 The CBA shows a range of benefits arising from the Clean Car Discount depending on different scenarios for these three factors. If fully funded:
- 85.1 The net present value (NPV) ranges from \$430 million to \$1,830 million.
 - 85.2 The benefit to cost ratio (BCR) ranges from 2.3 to 3.5.
 - 85.3 The total CO₂ emissions reduction ranges from 2.6 and 9.2 mega tonnes of CO₂.between 2022 and 2050.
 - 85.4 The marginal abatement cost (MAC)¹⁹ per tonne of CO₂ ranges from -\$170 to -\$199.
- 86 It is rare for a climate change policy to have a negative MAC. In other words, this policy has an overall impact of saving New Zealand money. The reason for this is

¹⁹ A marginal abatement cost is a measure of the cost-effectiveness of the policy intervention in reducing GHG emissions. It is calculated by dividing the net present value (NPV) of the intervention with the expected reduction in emissions from implementation of the intervention. When the estimated MAC is negative, it indicates the policy intervention has a net benefit from implementation.

primarily due to the reduced fuel costs on motorists that accumulate over years multiplied by hundreds of thousands of vehicles.

- 87 A Regulatory Impact Statement (RIS) produced by the Ministry of Transport in 2019 is attached. A Quality Assurance Panel with representatives from Maritime New Zealand, Ministry of Transport and the Treasury Regulatory Impact Analysis Team has reviewed this RIS and considers that it partially meets the Quality Assurance criteria. The RIS reviews both demand and supply-side options with the attached cost-benefit analysis report describing the impact of the proposed policy options. The proposals have been consulted on and feedback from stakeholders has been incorporated.
- 88 The panel thought the rigor of the RIS was diminished by the limited discussion of assumptions and inclusion of results from the cost-benefits analysis on the different proposed options. This concern is partly mitigated by evidence being available through the cost-benefit analysis report attached to the RIS. The problem definition restricts the RIS to ultimately only considering demand-side options and the underlying problem could have been better framed around reducing road transport emissions. The grounds for restricting the problem definition, urgency of action coupled with the pending design of alternative options (supply side in particular), did not entirely convince the panel. Finally, the consistency between the ratings of the options in the Impact Analysis on one hand and the estimated costs and benefits of the proposed options in the cost-benefit analysis report on the other is unaddressed in the RIS.
- 89 While the relevant issues in this Cabinet paper have already been addressed by this RIS, some of the figures have been updated using the latest data, such as the total CO₂ emissions reduction, marginal abatement costs, and cost/benefit have been remodelled. In response to the panel's feedback, this Cabinet Paper has provided additional framing of why this demand-side intervention has been proposed from alternatives, and why it is needed in addition to supply side policies. The Annex 1 of the Cabinet paper has also included a reasonable level of analysis and an additional change to the maximum fees from \$3,000 to \$3,500.

Climate Implications of Policy Assessment

- 90 The cumulative impact of the Clean Car Discount from 2022 to 2050 is a reduction of between 2.6 and 9.2 mega tonnes of CO₂. These numbers would be revised upwards if fees and rebates are set more aggressively over the longer term.
- 91 An increase in the volume of utes and other high emission vehicles sales is expected in the period between the announcement of this policy and the implementation of fees. This is expected to prevent vehicle CO₂ emissions falling in the 12 months following announcement; reductions are modelled thereafter. I have sought to mitigate this by pursuing the fastest possible implementation timeframe from announcement.

Human Rights

- 92 There are no implications for human rights and thus the proposals in this paper are consistent with the *New Zealand Bill of Rights Act 1990* and the *Human Rights Act 1993*.

Gender Implications and Disability Perspective

- 93 There are no significant gender or disability implications from the Clean Car Discount. An exemption from fees could be added in the future, if it were later found that adaptations such as wheelchair lifts proved inequitable on electric vehicles.

Communications

- 94 I will announce this policy following Budget night and the confirmation of the dollar figures for 2021 rebates, and the maximum 2022 fee (and exemptions or discounts from fees) by Climate Change Ministers.
- 95 Officials will prepare embargoed information to send to the motor vehicle industry immediately following announcement. Because it relates to the Cooperation Agreement between the Labour Party and the Green Party, I will engage with the Green Party about the announcement.

Proactive Release

- 96 This Cabinet paper will be released on the later of (a) 30 days following decision made by Cabinet and (b) Budget 2021.

Recommendations

- 97 The Minister for Transport recommends that the Cabinet Economic Development Committee:

Core policy design

- 1 **note** that the policy decisions needed to support the Clean Car Discount have been informed by advice from the Productivity Commission, The Climate Change Commission, the International Council for Clean Transport, the consultation based on the discussion paper '*Moving the light vehicle fleet to low-emissions: discussion paper on a Clean Car Standard and Clean Car Discount*', dated 9 July 2019, and by a series of vehicle industry workshops and meetings held since 2019 under the then Associate Transport Minister, Hon Julie Anne Genter
- 2 **agree** that the Clean Car Discount provides for consumers to receive a discount on the first purchase of zero- and low-emission vehicles (such as electric cars) or to pay a fee on the first purchase of high-emission vehicles (such as large petrol powered SUVs)
- 3 **agree** that the Clean Car Discount will apply only to new and used vehicles registered for road use for the first time in New Zealand
- 4 **agree** that the Clean Car Discount will not apply to the following vehicles: light vehicles that have previously been registered in the New Zealand²⁰; light vehicles that are never road registered; all heavy vehicles; power-assisted pedal cycles; mopeds; motorcycles (including with sidecar); motor tricycles; vintage and veteran vehicles; special interest vehicles
- 5 **agree** that vehicles with a purchase price of \$80,000 (including GST and on-road costs) or more will not be eligible for a discount
- 6 [REDACTED]

[REDACTED] Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982

- 7 **agree** that discounts and fees be derived from the level of CO₂ tail pipe emissions of individual vehicles based on a formula (to be specified in associated regulations) for discounts and fees

²⁰ This means that vehicles that have landed in New Zealand but not yet registered, would become subject to the scheme when they go for first registration.

8 **agree** that discounts and fees can be set to different levels based on vehicle characteristics, including whether the vehicle is new or used, its age at point of import, and the type of vehicle it is **Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982**

9 [REDACTED]

10 **agree** that the Clean Car Standard can additionally require suppliers to sell a minimum proportion of zero emission vehicles, and that the charge for non-compliance be initially set to a cost as though each vehicle that should have been zero emission were subject to additional 10g CO₂ overage charge, and that the minimum proportion be initially set to 0% (i.e. no minimum proportion to begin with), and that the scope of the Clean Car Standard review of charges in 2024 be expanded to carefully consider if and when to raise this minimum proportion

11 **note** that the New Zealand Motor Vehicle Register (managed by Waka Kotahi) is the government database that will hold vehicle emissions data used for calculating discounts and fees

12 **note** that there could be some risk to compliance with some of our international trade obligations, but the Ministry of Transport is working with the Ministry of Foreign Affairs and Trade to mitigate those risks

Fiscally neutral design

13 **agree** that the Clean Car Discount be designed and managed to be fiscally neutral over its lifetime

14 **agree** that, unless otherwise agreed by Cabinet, if the full amount of rebate funding is exhausted at any given time, that rebates would not be issued until more funding is available, and that withheld rebates will not be queued up for later payment.

15 **agree** the 2024 review and subsequent reviews of the Clean Car Standard be expanded to consider further design improvements to the Clean Car Discount such that they work in concert with one another to reduce transport emissions

16 **agree** that in 2023 and 24 month or less intervals, that Transport officials perform a review of income and expenditure of the scheme, together with motor vehicle purchasing trends and the availability and affordability of vehicles at different CO₂ emission levels, and advise me on whether corresponding corrections need to be made to the level of rebates and fees (including any exemptions, price caps, or related policy design) in order to (a) shift the revenue trend of the scheme towards a long term surplus position, and (b) enable opportunities to further reduce vehicle CO₂ emissions or remove unforeseen negative outcomes

Finalising the scheme design

17 **agree** that Clean Car Discount rebates be available for Electric Vehicles (but not hybrids or fuel efficient vehicles) registered from 1 July 2021, and for the rebate to be manually issued by Waka Kotahi

18 **agree-in-principle** that rebates from 1 July 2021 will be set as follows:

	New Vehicle	Used Import
Battery electric vehicle (Zero emission)	\$7,500	\$3,000
Plugin hybrid electric vehicle (Low emission)	\$5,000	\$2,000

Figures are exclusive of GST

- 19 **agree-in-principle** that for the 2022 year, the maximum CO₂ fee would be set to \$3500 (plus GST)
- 20 **authorise** the Climate Change Ministerial Group to:
- 20.1 make final decisions on the level of the rebate to be issued on zero and low emission vehicles from 1 July 2021;
 - 20.2 agree the maximum CO₂ fee for 2022
 - 20.3 agree the full schedule of rebates and fees based on vehicle CO₂ emissions (including the CO₂ emissions levels that enable some vehicles to receive neither discounts nor fees) that would apply during the 2022 year, and use at least two months' worth of data arising from rebates being available in the vehicle market in order to inform those decisions
 - 20.4 determine purpose-based exemptions or discounts on the fees payable on vehicles which do not have feasible low-emissions alternatives that would apply from 2022
- 21 **agree** that I can make final decisions on the criteria that would exclude vehicles with poor crash worthiness from receiving discounts
- 22 **agree** that I return to Cabinet later this year with an update on the decisions made in relation to recommendations 20 and 21, and to seek agreement of outstanding policy decisions if necessary

Vehicle labelling requirements

- 23 **agree** that a vehicle's CO₂ emissions in grams per kilometre, and in the form of a refreshed star-rating, and the amount of any rebate or fee, will all be visible to the consumer at the point of purchase through clear labelling on the vehicle, and through electronic labelling if the vehicle is advertised online
- 24 **note** that I intend to work with the Minister of Energy and Resources to implement this, including changes to improve enforcement and compliance if necessary, through amendments to the Energy Efficiency and Conservation Act 2000 and the Energy Efficiency (Vehicle Fuel Economy Labelling) Regulations 2007 following public consultation

Commencement

- 25 **agree** that rebates on electric vehicles begin on 1 July 2021 and that graduated rebates, zero fee band treatment, and fees, based on CO₂ emissions, apply as soon as possible following necessary legislation, which is anticipated to be in 2022
- 26 **note** that Waka Kotahi will be responsible for implementation (including issuing rebates to and collecting fees from vehicles buyers at the point of first registration in New Zealand) and this will involve IT system development and ongoing administration support for financial accounting, data entry and other IT operations, help line and call centre services, monitoring, and audit, and that Waka Kotahi will communicate changes to the motor vehicle industry and support them through this change
- 27 **note** that Waka Kotahi and EECA had worked on implementation during 2019 and 2020 and will resume in April 2021 in order to deliver on timeframes agreed above

Funding

- 28 **note** that the Clean Car Discount is intended to be funded through a Crown loan

- 29 **note** that under section 65L of the Public Finance Act 1989, the Minister of Finance, may on behalf of the Crown, give a loan if it appears to be necessary or expedient in the public interest to do so
- 30 **note** that approval from the Ministers of Finance and Transport is required, pursuant to section 160(1) and 162 of the Crown Entities Act 2004, for Waka Kotahi to borrow
- 31 **note** that, on 12 April 2021, Cabinet agreed to provide \$301.8 million through Budget 2021 in a capital contingency for the Clean Car Discount and authorised the Minister of Transport and the Minister of Finance jointly to draw down the tagged capital contingency funding (establishing any new appropriations as necessary), subject to [CAB reference TBC]:
- 31.1 Cabinet agreement to core design parameters for the Clean Car Discount through this paper
 - 31.2 agreement by the Minister of Finance to, on behalf of the Crown, make a loan under section 65L of the Public Finance Act 1989 as described in recommendation 30 above
 - 31.3 approvals from the Ministers of Finance and Transport, pursuant to section 160(1) and 162 of the Crown Entities Act 2004, for Waka Kotahi to borrow, as described in recommendation 30 above
- 32 **note** that any drawdowns of the contingency described in recommendation 31 above that establish the new appropriation for the Crown Loan can only be done after Budget moratorium with changes to be included in the 2021/22 Supplementary Estimates and, in the interim, expenditure to be met from imprest supply
- 33 **note** that the new appropriation will be in place, with ability to access any Crown loans from 1 July 2021
- 34 **note** that Waka Kotahi estimates that setting up the Clean Car Discount will have operating costs of around \$6.8 million in 2020/21 and has already incurred costs to date that it has met from its balance sheet
- 35 **note** that Waka Kotahi estimates that administering the Clean Car Discount will have ongoing operating costs of around \$8 million per annum from 2021/22 onwards
- 36 **agree** that cost recovery for Waka Kotahi's set-up and annual operating costs described in recommendations 35 and 36 above, including servicing interest payments related to any Crown loan and cost recovery for set-up costs incurred in 2020/21, will be met from fees on high emissions vehicles
- 37 **note** that the terms and conditions of any Crown loan will be determined by the Minister of Finance
- 38 **note** that further Cabinet agreement would need to be sought if the terms and conditions of any Crown loan have further impacts on Budget allowances
- 39 **agree** that Waka Kotahi use a 'specific reserve' as an administrative means to monitor and manage the year-to-year cashflow operation of the Clean Car Discount scheme
- GST treatment of fees and discounts*
- 40 **note** that under the GST Act, GST will apply to all Clean Car Discount fees, and will apply to discounts issued to any person (other than a public authority) who carries on a taxable activity, and discounts made to any other person will not be subject to GST
- 41 **note** that transport and tax policy officials will review the application of the GST Act to fees and discounts under the Clean Car Discount scheme to ensure the GST

treatment is appropriate for the efficient operation of the scheme and the GST system

- 42 **agree** that any dollar amounts for fees or rebates, including the figures in the table in recommendation 18, would be considered “plus GST, where applicable”

Legislation

- 43 **note** that a Bill will be required to amend the Land Transport Management Act 2003 and the Land Transport Act 1998 to give effect to the policy proposals outlined above
- 44 **note** that the Land Transport (Vehicle CO₂) Amendment Bill, on the 2021 Legislation Programme with a priority of category 2 - must be passed in the year, will support the development of a Vehicle CO₂ Standard that would regulate the supply of high-emission vehicles by imposing emissions standards on suppliers of light vehicles
- 45 **approve** the inclusion of legislation for the Clean Car Discount in the Land Transport (Vehicle CO₂) Amendment Bill, to form a combined bill with a priority of category 2 - must be passed in the year that includes legislation required for the Clean Car Discount and the Clean Car Standard
- 46 **note** that the Bill should be introduced no later than August 2021
- 47 **note** that the Bill should be passed no later than November 2021
- 48 **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above mentioned policy proposals (including for primary legislation and any associated regulations) including any necessary consequential amendments, savings and transitional provisions
- 49 **authorise** the Minister of Transport to make decisions that are consistent with the overall policy, provided that these decisions are confirmed when the Bill is considered for introduction
- 50 **note** that officials will undertake further work to identify whether any offences and penalties are necessary to ensure the integrity of the Clean Car Discount scheme
- 51 **note** that this paper refers to 'Waka Kotahi' throughout for ease of reading, and that officials have been asked to provide further advice on which powers and functions should go to the New Zealand Transport Agency, the Director of Land Transport or the Registrar of Motor Vehicles, as they work through final details.
- 52 **authorise** the Minister of Transport to determine which of Waka Kotahi, the Director of Land Transport or the Registrar of Motor Vehicles should have particular powers and functions in the legislation
- 53 **note** that, given the magnitude by which vehicle emissions need to reduce, the Minister of Transport is also considering extending the current exemption that light electric vehicles have from paying Road User Charges
- 54 **note** minor amendments may be required to the Motor Vehicle Sales Act 2003, the Goods and Services Tax Act 1985 and the Energy Efficiency and Conservation Act 2000 to give effect to the Clean Car Discount.

Annex 1: Indicative fee and rebate schedule and Crown loan repayment schedule

The tables below illustrate the fee and rebate schedule for 2021 and 2022 discussed in this paper

The tables below show the distribution of rebates and fees across vehicles with different emissions levels, ranging from a maximum \$7,500 rebate for a new electric vehicle, to a maximum \$3,500 fee for the most polluting new internal combustion engine vehicles.

When the fee and rebate schedule is reviewed (proposed annual review), officials would provide up-to-date advice on new fee and rebate levels based on review of current makes and models, their availability/affordability, and ensuring the scheme operates in a surplus.

During the first phase of the Discount scheme in 2021, flat rebates proposed (\$7,500 for new EV, \$5,000 for PHEV, and smaller figures of \$3,000/2,000 for used) are based on a simplification of the first three columns in the table for 2021.

In practice, actual fee and rebate schedules can be adjusted from year to year

Decisions now will only affect fees and rebates for 2022. All future years will be recalibrated on the basis of actual market behaviour to ensure revenue surplus and emission reduction goals and will deviate from the model below.

Illustrative fee and rebate levels for new vehicle imports:

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							
	>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		
2018																		
2019																		
2020																		
2021	-\$7,500	-\$5,560	-\$4,420	-\$3,560	\$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	\$1,000	\$1,460	\$1,890	\$2,440	\$3,210	\$3,500	
2024	-\$2,700	-\$2,000	-\$1,590	-\$1,280	\$0	\$0	\$0	\$0	\$0	\$0	\$500	\$700	\$980	\$1,480	\$1,940	\$2,640	\$3,410	\$3,500
2025	-\$1,620	-\$1,200	-\$950	-\$770	\$0	\$0	\$0	\$0	\$0	\$0	\$500	\$700	\$1,200	\$1,660	\$2,090	\$2,640	\$3,410	\$3,500
2026	-\$970	-\$720	-\$570	-\$460	\$0	\$0	\$0	\$0	\$0	\$0	\$500	\$700	\$980	\$1,480	\$1,940	\$2,370	\$2,920	\$3,500
2027	-\$580	-\$430	-\$340	-\$300	\$0	\$0	\$0	\$0	\$0	\$0	\$500	\$700	\$1,370	\$1,870	\$2,330	\$2,760	\$3,310	\$3,500
2028	-\$350	-\$260	-\$200	-\$160	\$0	\$0	\$0	\$0	\$0	\$0	\$1,370	\$1,920	\$2,420	\$2,880	\$3,310	\$3,500	\$3,500	\$3,500
2029	-\$210	-\$160	-\$120	-\$100	\$0	\$0	\$0	\$0	\$0	\$0	\$1,370	\$1,920	\$2,690	\$3,190	\$3,500	\$3,500	\$3,500	\$3,500
2030	-\$130	-\$100	-\$70	-\$60	\$0	\$0	\$0	\$0	\$0	\$0	\$1,370	\$1,920	\$2,690	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2031	-\$120	-\$90	-\$60	-\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$1,370	\$1,920	\$2,690	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2032	-\$110	-\$80	-\$50	-\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$1,370	\$1,920	\$2,690	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2033	-\$100	-\$70	-\$50	-\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$1,920	\$2,690	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2034	-\$90	-\$60	-\$50	-\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$2,690	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2035	-\$80	-\$50	-\$50	-\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500

If maximum fees rise above \$3,500 later in the decade then rebate levels would not need to fall so quickly. It is anticipated by that stage, there will be supply of zero and low emission alternatives across all vehicle segments, enabling vehicle buyers greater choice.

BUDGET SENSITIVE

Illustrative fee and rebate levels for used vehicle imports:

USED VEHICLES - Rebates and Fees applicable to Used Vehicle Imports (\$/vehicle)															Utes and high emission vehicles					
	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	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
2019	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
2020	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
2021	-\$3,000	-\$2,030	-\$1,460	-\$1,030	\$0	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$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	\$1,500		

If maximum fees rise above \$1,500 later in the decade then rebate levels would not need to fall so quickly.

The resulting impact on the finances of the feebate mechanism:

EXPECTED FINANCIAL POSITION OF THE SCHEME													
Estimated rebate payables					Estimated fee receipts					(Positive = surplus)		(Positive = surplus)	
Year-on-year results					Year-on-year results					Net financial position		Cumulative financial position	
										Year-on-year results		Scenario 2	
2021	-\$78 m	to	-\$71 m		\$0 m	to	\$0 m			-\$78 m	to	-\$71 m	
2022	-\$245 m	to	-\$189 m		\$79 m	to	\$115 m			-\$166 m	to	-\$74 m	
2023	-\$364 m	to	-\$263 m		\$207 m	to	\$301 m			-\$158 m	to	\$38 m	
2024	-\$425 m	to	-\$307 m		\$344 m	to	\$508 m			-\$81 m	to	\$201 m	
2025	-\$465 m	to	-\$338 m		\$485 m	to	\$733 m			\$21 m	to	\$395 m	
2026	-\$489 m	to	-\$358 m		\$644 m	to	\$983 m			\$155 m	to	\$625 m	
2027	-\$504 m	to	-\$370 m		\$820 m	to	\$1,264 m			\$316 m	to	\$894 m	
2028	-\$515 m	to	-\$379 m		\$1,010 m	to	\$1,568 m			\$496 m	to	\$1,189 m	

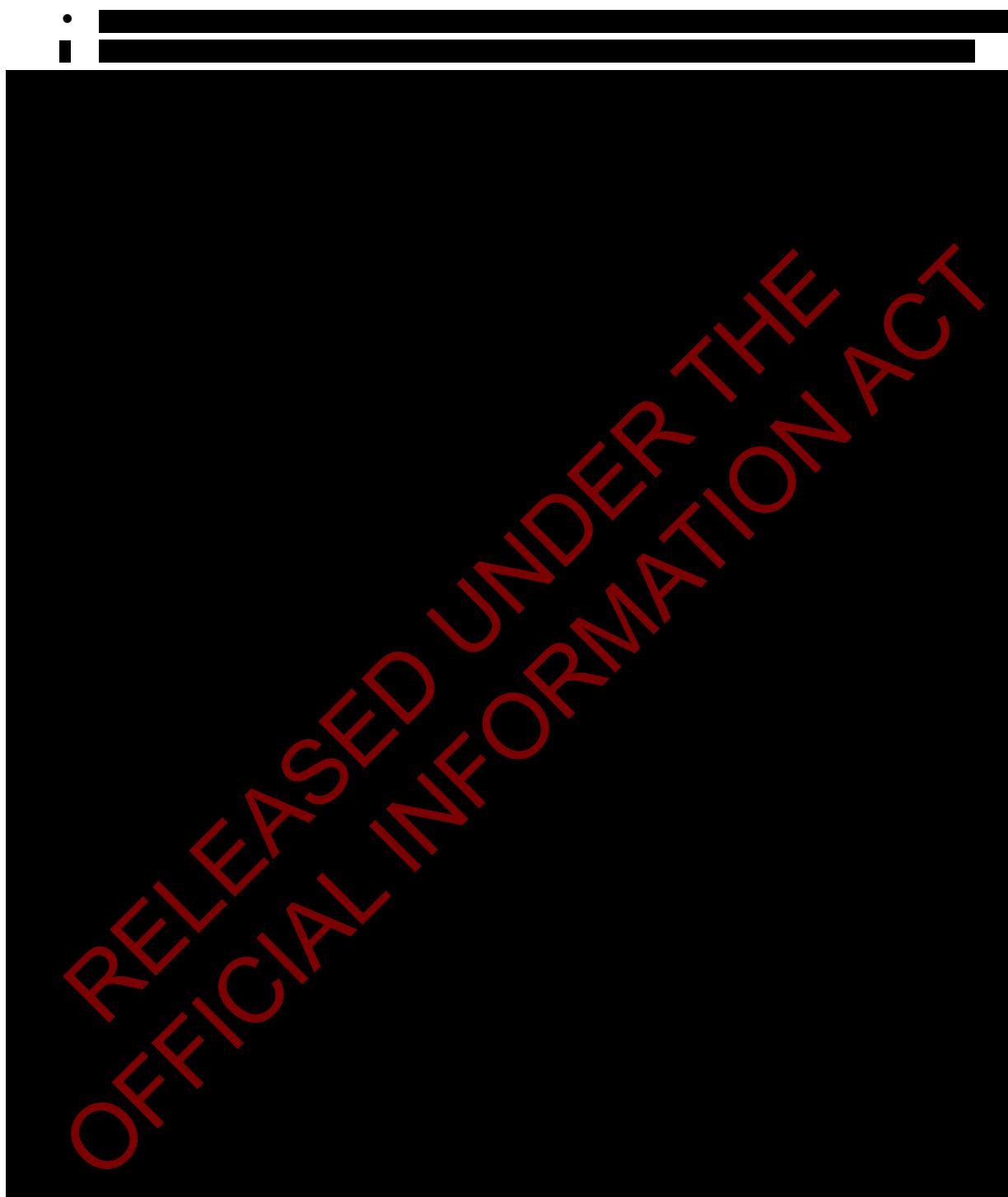
break even if behavioural response is high break even if behavioural response is low

Notes on these calculations

- The above tables show the expected \$80 million initial deficit that would arise from beginning issues rebates from July 2021.
- In 2023 if electric and hybrid vehicles are adopted at the highest modelled uptake level (over 60,000 vehicles), there is a risk of rebates pausing in this year due to lack of funding, supposing that fees were not raised that year.
- With the above assumptions, if EV uptake is low or moderate, the scheme would be in surplus from 2023 (with the loan repaid) from 2023. The assumption would be that rebates would in practice be adjusted to stimulate uptake.

ANNEX 2:

Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982



Annex 3 to the Clean Car Discount Cabinet Paper: updates to the RIS and CBA

The Clean Car Discount Cabinet paper was authored and lodged in April 2021. Two relevant annexes were produced earlier:

1. A **Regulatory Impact Assessment** document which was dated 26 November 2019 and reviewed by a QA panel in 27 November 2019 and finalised shortly after.
2. A **Cost-Benefit Analysis** for a Vehicle Fuel Efficiency Standard and Feebate scheme was finalised December 2019

This annex outlines key areas in these annexes that no longer apply.

Regulatory Impact Assessment (RIS)

1. Cabinet agreed to implement the Clean Car Standard in January 2021. The RIS statements that the Standard needs more analysis before it can be progressed thus no longer hold.
2. There are now additional drivers for a Clean Car Discount since the RIS was prepared. For example, the Government passed the Climate Change Response (Zero Carbon) Act in 2019, which requires emission reduction plans and that CO₂ emissions reach net zero by 2050, and declared a Climate Emergency in late 2020. These are noted in the Cabinet paper. The Climate Change Commission has also recommended discounts on clean cars in its draft advice in early 2021.
3. The RIS on page 9 notes the Paris Agreement requires New Zealand CO₂ emissions be 30% lower in 2030 compared to a 2005 baseline, but forecast road transport emissions are expected to be 9% higher. Our current (2021) modelling anticipates that 2030 emissions levels for the light vehicle fleet would in fact be 19.5% higher than 2005 (assuming neither Clean Car Standard nor Discount are in place).
4. The indicative dollar amounts of fees and rebates on page 5 and 6 of the RIS have been superseded by the Cabinet Paper, though the changes are not significant. The RIS indicates discounts would be set to \$2600 (used imports) and \$8000 (new vehicles) and the Cabinet paper now proposes these in principle be \$3000 and \$7500, that these be finalised by the Climate Change Ministerial Group, and that they commence ahead of fees commencing on high emitting vehicles.
5. While the 2019 analysis did investigate the effects of CCD and CCS as separate policies and as a joined policy, the 2019 CCD policy papers treated CCD as the only policy. Since it is clear that CCS will soon be implemented, recent modelling looks at the incremental effects of CCD with the support of the CCS policy. Given both policies involve providing financial incentives for low emitting vehicles and disincentives for high emitting vehicles, the policies are expected to enhance the effects of each other.
6. Recent analysis also took the opportunity to include the following key updates and changes:
 - o Baseline projections to 2050 have been updated to reflect recent trends in the uptake of electric vehicles (revised downward) and hybrid vehicles (revised upward), changes in the level of travel and other key economic drivers and factors. Comparing to previous projections, the revised carbon emissions projections from the light vehicle fleet are now 21% higher by 2035 and 30% higher by 2050.
 - o Extension of the CCD policy beyond 2028 with rebates applying to electric and hybrid vehicles until 2035 and fees applying to internal combustion engine vehicles out to 2050.
 - o Behavioural response assumptions (in particular the price elasticities of demand for electric and hybrid vehicles) have been upgraded (fourfold increase) to take into account any potential financial risk and in view of the successful effects observed overseas. The upgraded assumptions have been used to provide the upper end of the estimates.
 - o The shadow price of carbon and fossil fuel prices projections to 2050 have also been updated.
7. Newer modelling has updated policy forecasts now described by the Cabinet paper:

- CO₂ savings from 2020 to 2050 (p40 of RIS) of 210,000 tonnes (standalone policy) are now forecasted (as incremental effects to CCS) to be higher at 2.6 to 9.2 million tonnes in the Cabinet paper.
 - Benefit to Cost (BCR) ratio (p41) was 1.1 and is now 2.3 to 3.5.
 - Net present value (NPV) (p41) was \$14.8 million and is now \$430 million to \$1830 million.
 - Marginal abatement cost (p47) was -\$71 to \$332/tonne now -\$170 to \$199.
8. Whereas the RIS implied this policy would have a finite life the Cabinet paper suggests it may have longer term value, such as ensuring electric vehicles are efficient (Cabinet Paper recommendation #9), [REDACTED]
- [REDACTED] Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982
- 9. Vehicle safety is better considered. Page 15 the RIS notes that vehicle safety impacts were not analysed and on p26 that 1 and 2 star safety vehicles could receive a discount. The Cabinet paper recommends instead that vehicles with poor crash worthiness would be ineligible to be granted a discount even if low/zero emission.
 - 10. The RIS did not propose any concession be given for utes and/or farmers. The Cabinet Paper recommends that this topic be given consideration by a delegated group of Ministers.
 - 11. Changes to vehicle performance and charging stations:
 - Page 23 states a brand new \$70,000 electric vehicle usually drives 200-300km. This has since improved to 300km-400+ km and is expected to improve further this decade.
 - Page 23 states charging units are hardly in the numbers/locations needed for mainstream use. This situation is now improved to the point where there are chargers every 75km on 96% of the state highway network

Cost Benefit Analysis (CBA)

- 12. The CBA provides several scenarios, including "Option 3" which assumes a Clean Car Standard of 105g by 2025 plus a Clean Car Discount with discounts up to \$8000 and fees up to \$4000. This option is the closest scenario to that currently proposed by the Cabinet Paper, though they do not match exactly. For example the Cabinet paper now assumes fees would continue indefinitely so as to prevent a rise of CO₂ emissions if the Clean Car Discount ended in 2028 as had been modelled by the CBA. The feebate schedules (p52 and p56) are subject to final calibration and are expected to more closely resemble the schedules attached as Annex 1 to the Cabinet Paper.