2 September 2021 OC210708

Hon Michael Wood **Action required by:**

Minister of Transport Monday, 6 September 2021

IMPLICATIONS OF A DELAY TO THE CLEAN VEHICLES BILL AND TIMING OPTIONS

Purpose

This briefing provides advice on the implications of delaying the introduction and first reading of the Clean Vehicles Bill following delays caused by the COVID-19 Delta outbreak in August 2021. New suggested timing options for the Bill are provided with implications for when new rebates and charges on light vehicles could commence.

Key points

- The COVID-19 Delta outbreak has prevented the Bill from being introduced and receiving its first reading in August 2021. Initial timeframes had planned for the Bill to pass in 2021 and regulations for the full rebates and charges scheme to be in force on 1 January 2022.
- We recommend the Bill be introduced as soon as possible, either in September or early October.
- Once the Bill has been passed, regulations will need to be made to impose charges. The full scheme will operate 28 days after the charges have been gazetted.
- At the very earliest the scheme could be running by late-January 2022, but this timetable would offer no leeway for any delay, and may come at a risk to the quality of the legislation. We therefore recommend aiming for mid-April 2022.
- A delay will mean the scheme generates less revenue from high emitting vehicles in 2022. However, we are confident there is enough funding available through Budget 2021 for this.
- Charges and rebates are designed to work together to influence consumer purchasing behaviour, so a delay is likely to change the types of vehicles bought in 2022. Specifically, we expect to see increased levels of purchase of high emitting vehicles to continue into the first quarter of 2022. There would also likely be slight impacts for low and medium income New Zealanders' access to affordable used import hybrids, as rebates on these vehicles would only become available when the full scheme is operational.

- We suggest you issue a press release to explain the delay after the Bill has reached its first reading.
- Timing of the Clean Car Standard would not affected by the proposed delay to the legislation.

Recommendations

We recommend you:

1 **note** that the delay in the introduction and first reading of the Clean Vehicles Bill will impact when the charges on high emissions vehicles can begin

2 **note** that it would be possible to progress and pass the Bill this year and for regulations imposing charges on high emission vehicles to be in force in late January 2022, but this timeline provides no leeway for any substantive changes, or delays due to other Parliamentary priorities

3 **agree** to progress the Bill on the following timeline: Yes / No

- Bill is introduced late September or early October
- first reading and referral to select committee in October 2021
- Bill is reported back to the House from the first or second sitting week of 2022 (this is dependent on when the select committee starts meeting in 2022)
- Bill is prioritised for all remaining stages in the House in the sitting week following report back
- Regulations in force from mid April 2022

4 **note** that the delay in when fees will be able to be charged on high emitting vehicles will reduce revenue for 2022 but the existing funding provided through Budget 2021 is sufficient to cover this

5 **agree** to defer the Cabinet paper to finalise rebates and charges from September to October, as decisions are no longer needed as rapidly for implementation. Yes / No

[redacted]

Ewan Delany
Manager, Environment, Emissions, and Adaptation

2 / 9 / 21

Hon Michael Wood
Minister of Transport

..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Personal Details

Contacts

Name	Telephone	First contact
Ewan Delany, Manager - Environment, Emissions & Adaptation	[redacted]	✓
Sigurd Magnusson, Senior Policy Advisor	[redacted]	
Emma Petersen, Senior Solicitor	[redacted]	

TIMING OPTIONS FOR THE CLEAN VEHICLE BILL AND ASSOCIATED IMPACTS

A delay in the introduction of the Bill delays charges on high emission vehicles and the expansion of rebates on low emission vehicles

COVID-19 has delayed our planned timelines

1 Due to delays caused by the COVID-19 Delta outbreak, the Bill has not been introduced or had its first reading as planned in August 2021. This timing was recommended to ensure the Bill could be passed by the end of 2021, and that regulations imposing charges to support the Clean Vehicle Discount Scheme could be in force on 1 January 2022.

2 Rebates for electric and plug-in hybrid vehicles became available on 1 July 2021, with initial funding for the Clean Vehicle Discount Scheme being provided from a Crown grant. The imposition of charges on high emission vehicles under the Clean Vehicle Discount Scheme will provide the ongoing revenue to fund rebates on zero and low emission vehicles, and repay the Crown grant.

3 The Bill contains empowering provisions to make regulations to impose charges on high emission vehicles. These regulations cannot be made until the Bill is passed. Following the regulations being gazetted, the 28 day rule applies until they are in force, unless a waiver is granted. This means that any delay in the passage of the Clean Vehicles Bill has a direct impact on the timeframes for when charges on high emission vehicles are imposed.

4 The proposed charges on high emission vehicles are intended to discourage their purchase in favour of vehicles with lower emissions. Any delay in the passage of the Bill will have a direct impact on when the full Clean Vehicle Discount Scheme, with charges and rebates work ng together, influences consumer purchasing behaviour to the fullest extent.

The Clean Vehicle Standard would be unaffected by the proposed delay

5 The Bill also provides for the Clean Vehicle Standard and associated regulations. The Standard is intended to be fully operational from January 2023 and this timeframe will not be affected by the new timeline we are recommending for the Bill.

The funding provided in Budget 2021 is more than sufficient to cover the foregone charges on high emitting vehicles

6 Budget 2021 allocated $295 million to fund rebates under the Scheme. For the period 1 July to 31 August 2021 around $11 million has been spent on 2,119 clean vehicle rebates. This figure is lower than expected due to COVID-19 restricting vehicle sales in the second half of August.

7 For the 2022 calendar year we had expected the Scheme’s financial position to be in the range of a $43 million surplus to a $93 million deficit.

8 We have revised our estimates to allow for charges on high emitting vehicles to commence on 31 March 2022 rather than 31 December 2021. This change results in

a 2022 financial position of a deficit of between $3 million and $120 million. Such a deficit will be more than covered by the funding allocated as part of Budget 2021.

Implications of a delay in charges on vehicle sales

9 Unfortunately, the delay in charges is likely to lead to an increase in the purchase of high emitting vehicles above what had been expected.

10 On the other hand, a delay on imposing charges on high emitting vehicles is likely to alleviate concerns by parts of the industry and some consumers that they did not have sufficient notice following the June policy announcement to buy and receive a high emitting vehicle before charges commence.

11 Over 75% of vehicles entering New Zealand are processed in Auckland, which remains in Level 4 Lockdown. Depending on when Auckland moves to Level 2 or 1, there is a risk that a backlog of vehicles could mean that high emitting vehicles originally due to be processed and registered in 2021 could be delayed into early 2022. This would subject them to charges for reasons outside of a vehicle buyer's control. The delay in the imposition of charges would reduce the risk of complaints around this issue.

12 The other implication is for sales of hybrid vehicles. We are seeing growth of hybrid vehicles, which is contributing to decarbonising our light vehicle fleet. However, some consumers will be deferring their hybrid purchase until rebates on hybrids are added as part of the full scheme. We therefore consider any delay will slow the pace of hybrid market growth, potentially more so for used imports where there are fewer supply constraints. Delayed growth of used import hybrids by low and medium income buyers is likely given they are more sensitive to pricing than buyers of brand new vehicles.

13 Due to the existing rebates, we expect electric vehicle and plug-in hybrid sales to remain strong and increase as suppliers access more stock, particularly of new vehicles. This will help New Zealand decarbonise its light vehicle fleet.

Other implications of delay

14 A Cabinet Paper to finalise rebates and charges for the Clean Vehicle Discount Scheme is scheduled for September, following a Cabinet minute (CAB-21-MIN-0186 refers). However, given recent guidance that Cabinet papers are being taken only where essential due to COVID-19 restrictions, we now are working to a timeframe of October for this paper. This extension will not have any implications for the legislation or full implementation of the Scheme.

15 We recommend you issue a press release after the first reading of the Bill to explain the delays for the public and vehicle industry. The public are likely to require reassurance that current rebates will continue into 2022 despite the delays, and clarification will be needed to clearly indicate a new date for when expanded rebates on low emission vehicles and charges on high emitting vehicles are expected to be implemented.

There are a number of options for the timing of the Bill

If the Bill is introduced next week the regulations could be in force by late January 2022 but there would be no leeway for any delay and we do not recommend this approach

16 If the Bill is introduced in the sitting week of 7 September, first reading and referral to a select committee could occur from 21 September. This timing would allow for a select committee period truncated to 10 weeks, with report back to the House by 2 December.

17 Under these timeframes, and with priority in the House, it could be possible for the Bill to pass through remaining stages in the final weeks before the House rises on 16 December.

18 If the Bill was to pass through all remaining stages in the sitting week of 7 December, it could be possible to lodge the regulations for consideration by Cabinet Legislation Committee on 16 December. With Cabinet confirmation and Executive Council on 20 December the regulations could be in force by 20 January 2022 accounting for the 28-day rule.

19 This timing is entirely reliant on the Bill having priority in the House and does not provide any leeway for further delay. Progressing the remaining stages of the Bill under urgency may also need to be considered.

20 Progressing the Bill under these timeframes limits any opportunity to submit a supplementary order paper if required to address any final matters that may have arisen. There is a risk that this could impact the final quality and workability of the legislation. We do not recommend this option.

If the Bill is introduced in mid September, the regulations could be in force by mid March 2022 but there would be no leeway for any delay to the Bill

21 If the Bill is introduced in the non-sitting week of 13 September, or the sitting week of 21 September, first reading and referral to a select committee could occur from 23 or 28 September respectively. With a select committee period of 10 weeks and report back to the House by 3 or 9 December, it could be possible for the Bill to pass through all remaining stages before the House rises on 16 December.

22 However, as above, these timeframes offer no leeway for any delay and may risk the final quality of the legislation.

23 Under this scenario, the regulations could be finalised in the first sitting weeks of 2022, and in force from mid March 2022 (with 28 days notice).

24 We do not recommend this option as it provides no contingency for delays to the Bill as it progresses through remaining stages in the final sitting weeks of 2021.

Our recommended timeline is to introduce the Bill in late September or early October, and have regulations in force by mid April 2022

25 If the Bill is introduced in the sitting week of 28 September or the non-sitting weeks of 4 and 11 October, first reading and referral to a select committee could occur from 19 or 21 October respectively. Under these timeframes, the Bill could be referred to a

select committee in October with possible report back in the first or second sitting week of 2022. The exact timing of report back would be dependent on when the select committee starts sitting in 2022.

26 If report back was at the end of the first or second sitting week in 2022, and the remaining stages of the Bill were prioritised to occur in the following sitting week, the regulations might be in force by the start of to middle of April 2022 (with 28 days notice).

27 This option provides a reasonable opportunity to accommodate last minute changes to the Bill by supplementary order paper if necessary.

A period of 10 weeks for select committee consideration is already tight

28 We have recommended a minimum 10-week period at select committee to allow for a three-week period for public submissions. The changes being implemented through the Bill, especially empowering regulations that may impose charges on high emission vehicles, are likely to attract considerable public interest. Accordingly, the public should be provided with a reasonable opportunity to provide feedback on the Bill.

29 We do not recommend a select committee period of less than 10 weeks unless a decision is taken not to seek public submissions on the Bill.