Title:	Impact Assessment (IA)						
The Road Vehicles (Co Regulation 2011	onstruction and Use	e)(Amendment No.x)	)	Date: 15/09/2011			
IA No: DfT00125			Stage: Final				
Lead department or agency:			Source of intervention: Domestic				
DfT			Type of measure: Secondary legislation				
Other departments or agencies:			<b>Contact for enquiries</b> : Chris Parkin, 020 7944 2958, chris.parkin@dft.gsi.gov.uk				
Summary: Intervention and Options				RPC: RPC Opinion Status			
	Cos	t of Preferred (or m	ore likely	) Option			
Total Net Present Value	al Net Present Business Net Net cost to business per		•	In scope of One-Out?	One-In,	Measure qu	alifies as
£0.344m	£0.344m	£0.232m		No		NA	
January 2012. The EU vehicle type approval Framework Directive 2007/46/EC allows Member States to derogate unsold vehicles built to earlier standards. This derogation is already in place for some types of van, further regulations are required to implement the derogation for the remaining types of van, ensuring a level playing field and avoiding unnecessary costs on industry. What are the policy objectives and the intended effects? To avoid unnecessary costs to industry. In the absence of regulations implementing the derogation, affected manufacturers would have to either register unsold vehicles before the 1st Janaury 2012 or submit them for Individual Vehicle Approval after the 1st January 2012. Pre-registering vehicles would impact severely on their eventual sale price, as consumers would effectively regard them as second hand. Submitting Individual Vehicle Approval incurs approval fees and administrative costs in taking each vehicle for approval.							
<ul> <li>What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)</li> <li>Two options have been considered</li> <li>0. Baseline option. Do not implement a derogation</li> <li>1. Implement a derogation as permitted by the Framework Directive.</li> <li>Seeing as the objective is to derogate from requirements in regulation this cannot be achieved by a non regulatory route.</li> </ul>							
Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Month/Year							
Does implementation go beyond minimum EU requirements? No							
Are any of these organisations in scope? If Micros notMicroexempted set out reason in Evidence Base.Yes				< <b>20</b> Yes	<b>Small</b> Yes	Medium Yes	Large Yes
What is the $CO_2$ equivalent change in greenhouse gas emissions?Traded:Non-traded:(Million tonnes $CO_2$ equivalent)00					traded:		

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

\_\_\_\_\_Date: \_\_\_\_\_

## Summary: Analysis & Evidence

#### Description:

#### FULL ECONOMIC ASSESSMENT

Price Base PV Bas		se Time Period		Net Benefit (Present Value (PV)) (£m)				
Year 2012	Year 2	2012	Years 2	Low: Optional High: Optional		Best Estimate: 0.344		
COSTS (£r	n)	<b>Total Tra</b> (Constant Price)		<b>insition</b> Years	5		Total Cos (Present Value	
Low		Optional			Optional		Optiona	
High	ligh Optional			Optional		Optiona		
Best Estimat	e	0			0			
<b>Description and scale of key monetised costs by 'main affected groups'</b> Implementing the derogation will not impose any costs on industry. There are no additional monitoring costs for Government. No increase in air pollutant emissions is forecast because, in the absence of the derogation, the vehicles would still enter into service.								
Other key non-monetised costs by 'main affected groups' None								
BENEFITS	(£m)	Total Transition           (Constant Price)         Years         (excl. Tra		(excl. Trans	Average Annual ition) (Constant Price)		<b>l Benefit</b> ent Value)	
Low			Optional			Optional		Optional
High			Optional	2		Optional		Optional
Best Estimat	e		0.344			NA		0.344
Description and scale of key monetised benefits by 'main affected groups' The derogation prevents vehicle manufacturers, including vehicle body builders, from having to register remaining stocks of Euro 4 vehicles prior to 1st January 2012 (at an estimated loss of sale value of £3.1m) or individually approve these vehicles (at an estimated cost of £344,000). Realistically, in the absence of the derogation, manufacturers would take the lower cost route and the loss in sale value would, in any case, be a transfer between manufacturers and purchaser rather than a cost. Other key non-monetised benefits by 'main affected groups' The derogation will similarly avoid the need for manufacturers of the smallest lorries (less than 2610kg unladen mass) to pre-register or individually approve remaining stocks of vehicles which do not meet Euro 5. It has not been possible to estimate the number of such vehicles, but this is expected to be small relative to the number of vans affected.								
Key assumptions/sensitivities/risks       Discount rate (%)       3.5         The number of vehicles affected is assumed to be 636 based on numbers of derogated vehicles at the last change in emissions standards for large vans (Euro 3 to 4). The actual number making use of the derogation is uncertain and will depend on current stocks and stock turnover in the remainder of the year. The cost saving per vehicle of the derogation is estimated to be £547 (£200 Individual Vehicle Approval fee plus £347 costs for transporting the vehicle to the approval test location).       BUSINESS ASSESSMENT (Option 1)								
Direct impact on business (Equivalent Annual) £m:								

Direct impact on bus	iness (Equivalent Annua	In scope of OIOO?	Measure qualifies as	
Costs: 0	Benefits: 0.232	Net: 0.232	No	NA

### **Evidence Base (for summary sheets)**

#### 1 Background

- 1.1. Vehicle emission standards
- 1.1.1. Mandatory air pollutant emission standards for new light goods vehicles up to 3.5 tonnes maximum permissible laden mass are defined in European Regulation EC No 715/2007 and its implementing measures, Regulation EC No 692/2008. For convenience, emissions standards are generally referred to as "Euro" standards and these European Regulations introduce the Euro 5 & 6 standards.
- 1.1.2. Light good vehicles (category "N1" in the Regulations) are subdivided into three weight classes, namely, classes I, II and III. Class I refers to vehicles whose reference mass is 1305 kg or less, class II whose reference mass is between 1305 and 1760 kg, and class III for those over 1760 kg (see Annex XVII of Regulation EC No 692/2008). Reference mass is essentially the unladen mass of the vehicle.
- 1.1.3. Category N<sub>2</sub> covers vehicles whose maximum permissible laden mass exceeds 3.5 tonnes, but not 12 tonnes (see Annex II of Directive 2007/46). The majority of N<sub>2</sub> vehicles are subject to heavy duty engine emissions standards (defined in European Directive 2005/55/EC and European Regulation 595/2009) and outside the scope of this Impact Assessment. However, Regulation 715/2007 does require N<sub>2</sub> vehicles of less than 2610kg reference mass to comply with the light duty vehicle emissions standards.
- 1.1.4. The limit values of regulated pollutants in exhaust emissions standards have been progressively tightened over time to reduce the impact of vehicle emissions on air quality, and from 1 January 2012 newly registered light goods vehicles in category N<sub>1</sub> class II and III and heavy goods vehicles in category N<sub>2</sub> with a reference mass of less than 2610kg have to meet the Euro 5 standard.
- 1.1.5. Ahead of a change in the standard, the motor industry starts to manufacture vehicles to the new one. However, some vehicles built to the outgoing standard will be left unsold when the new standard takes effect. These vehicles lose the validity of their "certificates of conformity" from the date the new standards take effect, and therefore would not be able to be registered using the normal registration process. EU legislation permits Member States to implement "end of series" derogations to give manufacturers a further 12-18 months to sell these vehicles, even though they do not meet the new emissions standard.
- 1.1.6. In the absence of these derogations manufacturers would have only two practical options for their unsold vehicles. Firstly they could register all vehicles prior to the entry into force of the new standard. Alternatively they could approve each individual vehicle for registration through the Individual Vehicle Approval (IVA) scheme, which sets emissions requirements based on the date of manufacture rather than date of registration of the vehicle. The baseline scenario is therefore that vehicle manufacturers would either register unsold vehicles before the end of 2011 or approve them for registration by means of IVA. Offering an end-of-series derogation will enable manufacturers to liquidate their remaining stock, without incurring the loss of value inherent in registering vehicles before they are sold or the additional cost of submitting every vehicle in the remaining stock for IVA after the new emissions standard takes effect.
- 1.2. "End of series" rules
- 1.2.1. Ensuring production exactly matches sales, to ensure nil stock of vehicles built to a standard on the date that standard is superseded, is rarely possible.
- 1.2.2. To facilitate the transition to more stringent requirements, the European Type Approval Framework Directive (2007/46/EC) allows Member States to permit "the registration and entry into service of a limited number of vehicles as end of series production". These are vehicles that are already in a European Economic Area State and whose certificate of conformity is no longer valid due to the entry into force of a more stringent type-approval requirement.

- 1.2.3. End of series derogations from new emissions standards are already in place in UK legislation for passenger vehicles, N<sub>1</sub> class I vehicles, some category N<sub>1</sub> class II and III vehicles, most N<sub>2</sub> and all N<sub>3</sub> heavy goods vehicles. Provisions need to be made for the remaining category N<sub>1</sub> class II and III and N<sub>2</sub> vehicles built to Euro 4 emission standards, to enable them to be registered on or after 1 January 2012 when the Euro 5 emissions standard comes into force for vehicles in these categories.
- 1.2.4. Under part B of Annex XII of Directive 2007/46/EC, Member States must restrict the number of vehicles entering into service under end of series derogations by ensuring that either;
  - the maximum number of vehicles of one or more types may, in the case of category N<sub>1</sub> and N<sub>2</sub>, not exceed 30 % of the vehicles of all types put into service by the manufacturer in that Member State during the previous year (the "30% rule"). Should 30 % be less than 100 vehicles, then the Member State may allow the entry into service of a maximum of 100 vehicles,
  - or
  - 2) vehicles shall be restricted to those for which a valid certificate of conformity was issued on or after the date of manufacture and which remained valid for at least three months after its date of issue, but subsequently lost its validity because of coming into force of a regulatory act (the "3 month rule").
- 1.2.5. Member States may not use both options for a given vehicle category.

#### 2 Rationale for Government Intervention

- 2.1. Manufacturers may not register vehicles that do not have a valid certificate of conformity indicating that they meet current vehicle construction requirements, including emissions standards. Certificates of conformity lose their validity when a new regulatory standard, for example, for exhaust emissions, takes effect. Such changes in the regulatory standards for exhaust emissions take place periodically to reduce the impact of pollution from road transport on air quality.
- 2.2. On the date that a new standard takes effect, inevitably, a number of vehicles built to the outgoing one are left unsold. To sell them manufacturers would either have to have registered those vehicles before the standard changed, thus effectively rendering them second hand and subject to loss in value when they are eventually sold, or register them after the standard changed using the IVA route, which would involve both approval fees and administrative costs in taking vehicles for inspection.
- 2.3. In the absence of Government intervention existing legislation will impose the above costs on manufacturers of  $N_1$  class II and III and  $N_2$  vehicles of less than 2610kg reference mass. The aim of the regulations which are the subject of this Impact Assessment is to avoid these costs on vehicle manufacturers that would otherwise be incurred from 1 January 2012 when Euro 5 becomes mandatory for these vehicles.
- 2.4. The proposed regulations enable derogations for vehicles that are type approved under National Type Approval (NTA). These are primarily completed multi-stage build vehicles e.g. vehicles supplied as a "chassis-cab" by the vehicle manufacturer and completed by a vehicle body builder constructing a load compartment on the chassis. Vehicles that are supplied by the vehicle manufacturer as complete vehicles or registered as incomplete chassis-cabs are subject to European Whole Vehicle Type Approval (ECWVTA) and are already eligible for derogations using the 3-month rule by virtue of regulation 31 of the Road Vehicles (Approval) Regulations 2009.
- 2.5. The European Type Approval Framework Directive permits Member States to apply a derogation based on either the 3 month rule or the 30% rule for each vehicle category. The existing derogations in the Road Vehicles (Approval) Regulations 2009 and the Road

Vehicles (Construction & Use) Regulations 1986, as amended, for other  $N_1$  and  $N_2$  vehicles are based on the 3 month rule. The proposed regulations are therefore constrained to using the 3 month rule for the remaining vehicles in these categories.

2.6. Application of the 3 month rule, rather than the 30% rule, for the remaining vehicles in these categories is in any case preferable in practice for two reasons. Firstly it avoids the confusing situation of different derogations applying to vehicles within one category depending on whether they are registered as incomplete, complete or completed vehicles. Secondly the 3 month rule makes planning simpler for manufacturers as all vehicles manufactured up to 3 months before the date the new standard takes effect are eligible for a derogation. The manufacturer does not have the worry about whether sales volume in the preceding 12 months will support the number of vehicles left in stock when the new standard takes effect, as is the case with the 30% rule.

#### **3** Simplification Measures & Administrative Burdens

- 3.1. The proposed regulations afford industry the opportunity to register unsold vehicles of an emission standard that has been superseded.
- 3.2. The regulations will not impose new administrative burdens on industry or Government.
- 3.3. The regulations do not make the vehicle registration process any more complicated than for vehicles that do comply with an emission standard that is current at the time of registration.

#### 4 Consultation

- 4.1. In view of the impending entry into force of the new emissions standards the Department has conducted a targeted consultation with motor manufacturers and the trade organisation representing them, SMMT (Society of Motor Manufacturers and Traders) and VBRA (Vehicle Builders and Repairers Association), because end of series provisions for vehicles affect only them and the importers. There are no financial implications for the wider public.
- 4.2. Industry are strongly supportive of the proposed derogation and had anticipated the availability of derogations based on the three-month rule in line with derogations in the Road Vehicles (Approval) Regulations.
- 4.3. The total number of N<sub>1</sub> class II and III and N<sub>2</sub> vehicles below 2610kg reference mass which will require a derogation under these regulations cannot be predicted precisely since this will depend on sales in the remainder of this year. At the last change in emissions standard for light goods vehicles 29,781 vehicles were derogated, however only 636 were completed multi-stage build vehicles.

#### 5 Options

- 5.1 Option 0: Do nothing, do not introduce an end of series derogation for vehicle categories  $N_1$  class II and III or  $N_2$  vehicles of less than 2610kg which have NTA approvals.
- 5.2 Option 1: Introduce a derogation for vehicles with certificates of conformity that are 3 months old or older on  $1^{st}$  January 2012. This is the favoured option as it reduces burdens on businesses and manufacturers of both  $N_1$  class II and III and  $N_2$  vehicles have been basing their production plans on the availability of this derogation.

#### **6** Costs and Benefits

#### 6.1. Sectors and Groups Affected

6.1.1. The proposed regulations will affect manufacturers of light goods vehicles in category  $N_1$  class II and III and of the smallest heavy goods vehicles in category  $N_2$  and businesses completing multi-stage build vehicles. There are three manufacturers of these vehicles in the

UK<sup>1</sup>. There are 450 UK businesses building goods vehicle bodies to complete multi-stage build vehicles, however we estimate that only 150 of these are likely to be involved in completing light (rather than heavy) goods vehicles. These businesses are almost exclusively small and medium sized enterprises. In addition, a wide range of manufacturers import goods vehicles into the UK in all three categories.

#### 6.2. Costs & Benefits

#### 6.2.1 Economic

- 6.2.1.1. Option 0 Do nothing. This is the baseline option against which costs and benefits are assessed. By definition it has no costs or benefits to Government, but does lead to financial penalty for manufacturers.
- 6.2.1.2. Option 1 - Introduce a derogation. There is no cost or benefit to Government. However, a derogation would reduce unnecessary costs to industry, whether absorbed by them or passed on to their customers. The number of completed N<sub>1</sub> class II and III vehicles that are estimated to be in stock on the 1st January 2012 is 636 units based on the numbers derogated at the previous (Euro 3 to 4) change in emissions standards for these vehicles. These are the "end of series" vehicles which, in the absence of the proposed regulations, would have to be pre-registered or approved via IVA. Industry has previously indicated that pre-registering vehicles would incur a loss of 20% of their list price. It is assumed that completed multi stage build vehicles will have an average price of £24,000 each excluding VAT. This is based on the assumption that the cost of a completed vehicle will be similar to the list price of the largest complete vehicles as listed on manufacturers' websites. Manufacturers having to pre-register these vehicles would therefore incur a loss of £3.1 million. However, this loss in value would not be a resource cost to the economy, but a transfer from manufacturers to consumers, as those who purchase the vehicles would gain from the reduction in price. Manufacturers have a less costly alternative to register them after the new emissions standards take effect by obtaining IVA at a cost of approximately £547 per vehicle (£200 inspection fee, plus £347 cost of taking a vehicle for inspection according to manufacturers' estimates). This would incur industry a cost of just under £348,000.
- 6.2.1.3. In the absence of a derogation we would expect industry to take the least-cost option incurring a cost of £348,000. Hence, introducing an end of series derogation would avoid these costs, thus delivering a financial benefit to manufacturers and ultimately consumers of £348,000 over the 18 months from 1<sup>st</sup> January 2012 for which the derogation will apply for completed multi-stage build vehicles. Assuming that sales are spread evenly over the period, this breaks down into a benefit of £232,000 in 2012 and £116,000 in 2013. Using a 3.5% discount rate, the present value benefit in 2012 is estimated to be £344,000.
- 6.2.1.5. Introducing a derogation does not impose any costs.

#### 6.2.2 Environmental

6.2.2.1. In the absence of a derogation, those vehicles remaining in stock at the introduction of new emissions standards would not be scrapped. They would either be registered before the introductory date of the standard for sale later, or approved for registration at a later date under the IVA scheme. IVA emissions requirements are based on the date of manufacture of the vehicle, rather than its date of registration as is the case under EU type approval requirements. In either case the vehicles would still enter into service after the introduction

<sup>&</sup>lt;sup>1</sup> Motor Industry Facts 2011 - Society of Motor Manufacturers & Traders, http://www.smmt.co.uk/reports-publications/industry-data/

of the new emissions stage. Consequently making a derogation available has no impact on emissions from vehicles.

#### 6.2.3 Social

6.2.3.1. There would be no social cost or benefits in offering the derogation.

#### 7 Small Firms Impact Test

- 7.1. Production of category N<sub>1</sub>, light goods vehicles, is predominantly carried out by large multinational firms, as is the production of the category N<sub>2</sub> vehicles. However, completion of multi-stage build vehicles is generally conducted by small firms who will be the main beneficiary of these regulations. All sizes of business, including micro businesses are within the scope of the proposed regulations, thus ensuring that they all benefit from the derogations being introduced. Firms completing multi-stage build vehicles are not currently subject to a legislative requirement to approve the vehicle in its completed state, however the base vehicle is approved by its manufacturer as a chassis-cab.
- 7.2. The proposal delivers benefits to vehicle manufacturers, in particular vehicle body builders involved in completing multi stage build vehicles. These are primarily small firms. The Department has consulted with the Vehicle Builders and Repairers Association who represent vehicle body builders and are supportive of the proposal which they regard as essential to ease the transition to new emissions for those completing multi stage build vehicles.

#### 8 Competition Assessment

8.1. The sector affected by the proposed regulations is the UK goods vehicle market. Not implementing the derogation would impose costs on industry that would vary across manufacturers according to the number of vehicles they had unsold in stock at the time the change in emission standard takes effect. It would also result in differential impacts on manufacturers depending on whether they were producing vehicles for which derogations already exist in legislation e.g. EC Whole Vehicle Type Approved complete or incomplete vehicles or vehicles for which they do not e.g. National Type Approved completed multi stage build vehicles. Permitting the derogation would avoid these differential impacts and prevent adverse impacts on competition.

#### 9 Enforcement, Sanctions and Monitoring

9.1. Administration of the end of series arrangements is carried out by the Vehicle Certification Agency. Enforcement of the arrangements is through the type approval process and via registration checks of vehicle "certificates of conformity" by the Driver and Vehicle Licensing Agency (DVLA). The proposed Regulation would not necessitate any changes to these procedures. Use of the 3 month rule should make identification of qualifying vehicles easier than previous derogations using the 30% rule because the date of last manufacture is easier to determine than monitoring derogation numbers against previous year's sales data to determine whether the number of derogated vehicles remains within the 30% of a previous year's sales.

#### **10** Greenhouse Gas Impacts

10.1. The proposed regulations do not have any impact on greenhouse gas emissions in either the traded or non-traded sector.

#### **11** Wider Environmental Issues

11.1. There will be no wider environmental impacts in implementing a derogation for completed multi stage build vehicles since, as discussed above, this will not impact on whether the vehicles enter into service.

#### **12** Health Impact Screening Test

12.1. There will be no change in air quality whether or not these vehicles are granted a derogation. Therefore a full health impact assessment is not required.

#### 13 Human Rights

13.1. The proposal does not engage or impose any restriction on the 16 basic human rights in the Human Rights Act 2000.

#### **14** Justice Impact Test

14.1. The implementation of a derogation does not create new offences or penalties. No impacts on the justice system are anticipated, and thus the Ministry of Justice were not consulted.

#### **15** Rural Proofing

15.1. The proposed regulations are not expected to have any disproportionate impact upon rural communities.

#### **16** Sustainable Development Impact test

16.1. There are no implications for sustainable development.

#### **17** Equality Impact Test

17.1 An equality impact assessment screening proforma has been completed for this proposal. The screening assessment found that the proposed amendments were without impact in terms of equality issues.

#### 18 One In One Out

18.1 The proposed regulations implement an optional EU derogation to the fullest extent permitted. As such they are outside of the scope of one-in one out.

#### 19 Summary costs and benefits table

Total benefit per annum: economic, environmental, social	Total cost per annum: - economic, environmental, social - policy and administrative
Implementing a derogation will avoid costs to industry ranging from £344,000 to £3.1m, but realistically £344,000. There are not expected to be any environmental or social benefits	There are not anticipated to be any costs

#### 20 Summary and recommendation

20.1 The recommended option is Option 1; implement a derogation. This route is estimated to deliver a one-off transitional benefit of £344,000 - 3.1 million to industry, with no economic, environmental or social costs. In the event of no derogation, we would expect industry to choose the lowest cost alternative, namely, registering vehicles after the new standard came into force via the IVA route at a cost of £344,000.

#### Annex 1: Post Implementation Review (PIR) Plan

**Basis of the review:** No review is planned. The regulations introduce one-off transitional flexibility for industry which would apply for a period of 18 months only. This is the maximum period permitted by EU law. There would be no value in reviewing this flexibility after the period for which it is permitted, under EU law, to apply.

Review objective: NA

Review approach and rationale: NA

Baseline: NA

Success criteria: NA

Monitoring information arrangements: NA

#### Reasons for not planning a PIR:

The derogation lasts for 18 months from the change in type approval requirements, namely, the relevant dates when the new exhaust emission requirements take effect. After 18 months the regulations will cease to have effect and no further flexibility is permitted by EU law.

Committee	OPINION			
Impact Assessment (IA)	The Road Vehicles (Construction and Use)(Amendment No.x) Regulation 2011			
Lead Department/Agency	Department for Transport			
Stage	Final			
Origin	European			
Date submitted to RPC	03/10/2011			
RPC Opinion date and reference	12/10/2011 RPC11-DFT-1099			
Overall Assessment	GREEN			

The IA is fit for purpose. The costs and benefits to the UK of introducing the derogation have been adequately assessed.

Identification of costs and benefits, and the impacts on small firms, public and third sector organisations, individuals and community groups and reflection of these in the choice of options

*Costs and Benefits.* The proposal is to introduce a derogation which prevents manufacturers of vehicles which do not meet the requirements of new emissions standards from having to either register early or approve vehicles individually. The benefits of the proposal have been adequately assessed; the proposal does not appear to have any adverse economic, environmental or social impact.

# Have the necessary burden reductions required by One-in, One-out been identified and are they robust?

The measure is of European origin, with no evidence of going beyond minimum requirements. As such it is out of scope of One-in, One-out.

Signed

MAS Gibba

Michael Gibbons, Chairman