

Submission to the consultation paper on the design of a Fuel Efficiency Standard for Australia

4 March 2024

About ACOSS

The Australian Council of Social Service (ACOSS) is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for the community services and welfare sector.

ACOSS consists of a network of approximately 4000 organisations and individuals across Australia in metropolitan, regional and remote areas.

Our vision is an end to poverty in all its forms; economies that are fair, sustainable and resilient; and communities that are just, peaceful and inclusive.

Climate change disproportionately impacts people who face disadvantage including people on low incomes, people with disability, people with chronic health issues and Aboriginal and Torres Strait Islander peoples.

A rapid transition to net zero emissions, consistent with limiting global warming to 1.5 degrees C, is therefore critical to reducing the impact on people facing disadvantage. This will require Australia prioritising emission reductions this decade and aiming for net zero emissions by 2035.

However, to achieve benefits for everybody, the transition to net zero emissions must be fair and inclusive. Putting people with the least at the centre of policy design means we can rapidly reduce emissions, poverty, and inequality in Australia.

Discussion

ACOSS welcomes the opportunity to provide input into the Federal Government's Consultation Impact Analysis Paper [Cleaner, Cheaper to Run Cars: The Australian New Vehicle Efficiency Standard](#) (NVES Paper).

The NVES Paper presents options (A, B and C), the costs and benefits associated with each option, and ultimately the Government's proposed policy (Option B) for a new vehicle efficiency standard to be put in place by 2025 (see figure below for summary of the options). The NVES sets an average carbon emissions target for

new light vehicles¹ sold by each car maker every year, with credit banking and trading available and penalties applied if they don't meet the standard.

Option A				Option B				Option C			
<p>Slow start and broadly equivalent rate of decline as the US NVES. Two CO₂ targets, one for passenger vehicles and a higher target for light commercial vehicles, but includes many SUVs in the light commercial vehicle class, along with utes and vans. No catch up.</p>				<p>A strong, ambitious and achievable NVES that seeks to catch up with the US around 2028 and then match the stringency of these standards, while not seeking to go beyond these standards. Two CO₂ targets, one for passenger vehicles and SUVs, and a higher target for utes and vans (including large pick-ups) in the light commercial vehicle category.</p>				<p>An aggressive NVES that catches up with the US around 2026 and then brings forward US targets for 2029-2031 to the Australian NVES in 2028 and 2029. Two CO₂ targets, one for passenger vehicles and SUVs and a higher target for utes and vans (including large pick-ups) in the light commercial vehicle category.</p>			
	Year	PV CO ₂ (g/KM)	LCV CO ₂ (g/KM)		Year	PV CO ₂ (g/KM)	LCV CO ₂ (g/KM)		Year	PV CO ₂ (g/KM)	LCV CO ₂ (g/KM)
	2025	141	199		2025	141	199		2025	141	199
	2026	137	190		2026	117	164		2026	103	150
	2027	127	183		2027	92	129		2027	66	101
	2028	115	176		2028	68	94		2028	51	63
	2029	99	172		2029	58	81		2029	34	56
	Total CO ₂ intensity reduction 2024-2029				Total CO ₂ intensity reduction 2024-2029				Total CO ₂ intensity reduction 2024-2029		
	34%		14%		61%		62%		77%		74%
	Average annual CO ₂ intensity reduction for new sales				Average annual CO ₂ intensity reduction for new sales				Average annual CO ₂ intensity reduction for new sales		
	6.8%		3.8%		12.2%		12.4%		15.5%		14.7%

The following discussion and recommendations build on our previous two submissions in this policy area:

- [ACOSS submission to the consultation paper on the design of a fuel efficiency standard](#)
- [ACOSS submission to the National Electric Vehicle Strategy Consultation Paper 2022.](#)

NVES critical to meet emission reductions targets.

Transport emissions are the second largest source of emissions in Australia (19%). Australia is one of two G20 countries that do not have an NVES in place. As a result, passenger cars in Australia emit around 20% more carbon emissions than the United States, around 40% more than the EU and 15% more than New Zealand.

The absence of an NVES in Australia has meant car manufacturers are not prioritising the supply of low and zero-emissions vehicles in Australia and are instead effectively dumping higher emissions vehicles not able to be supplied to other countries.

The NVES targets should be consistent with Australia's committed to achieving the Paris Agreement to limit global temperature increases to well below 2 degrees Celsius and pursue limiting it to 1.5 degrees C. The science shows that to keep warming at 1.5 degrees Australia must do its fair share and reduce climate pollution by 75% by 2030 and net zero emissions by 2035.

¹ Includes cars, SUVs, utes and 4-wheel drives.

The International Energy Agency's updated roadmap for net zero emissions by 2050 advocates for no new internal combustion cars sold anywhere by 2035.² Typically, advanced economies should be achieving these goals faster.

Australia should ideally be aiming to achieve zero carbon vehicles by 2030, and no later than 2035. This requires not just increasing the uptake of new low and zero emissions cars in Australia but quickly filtering this through to the second-hand market as well.

NVES will benefit people on low incomes, complementary measures will also be needed.

We know that people experiencing financial and social disadvantage are currently impacted by transport inequality. They are more likely to live farther from public transport and community hubs, more likely to be time-poor, more likely to travel outside of peak hours and more likely to rely on private transport. This inequality is being exacerbated by the current fuel crisis with people on low-fixed incomes struggling to afford fuel and reporting difficulties affording to travel to work, medical appointments, and other commitments.

There is international research that shows that people on lower incomes stand to benefit substantially from a shift to electric vehicles because of reduced operating costs.³ However, new cars are prohibitively expensive for people on low incomes. Over 50% of private vehicle purchases in Australia are from the second-hand market, and this figure is higher for younger people and people on low-incomes.⁴

Some international modelling has shown that a household in the lowest quintile could achieve savings of up to 7% of total household income by 2030 through switching to EVs, if the barriers to access could be addressed.⁵ Impact analysis from the Government⁶ and other organisations,⁷ shows there would be significant long-term benefits (fuel savings, reduce maintenance costs, health benefits) for people and communities, including those on low-incomes and in regional areas.

More ambitious NVES should incentivise new suppliers to enter the Australian market, creating competition and increasing the availability of lower cost models.

However, complementary measures will be needed to ensure people on low incomes or experiencing disadvantage are not left behind and can access low and zero emissions vehicles and charging infrastructure sooner. ACOSS proposed measures can be found in recommendation 6.

² IEA (2022) World Energy Outlook 2022 <https://iea.blob.core.windows.net/assets/830fe099-5530-48f2-a7c1-11f35d510983/WorldEnergyOutlook2022.pdf>

³ Sheldon, T. L. Evaluating electric vehicle policy effectiveness and equity. *Annu. Rev. Resour. Econ.* 14, (2022).

⁴ <https://www.carexpert.com.au/car-news/used-cars-continue-to-get-cheaper-new-research-finds>

⁵ Bauer, G., Hsu, C. W., & Lutsey, N. (2021). When might lower-income drivers benefit from electric vehicles? Quantifying the economic equity implications of electric vehicle adoption. *Work. Pap.* 6, 1-21.

⁶ [Cleaner, Cheaper to Run Cars: The Australian New Vehicle Efficiency Standard](#)

⁷ https://www.solarcitizens.org.au/roadshow_reports_australia and <https://www.climatecouncil.org.au/wp-content/uploads/2023/06/Mandala-Partners-Raising-standards-cutting-costs-June-2023.pdf>

Sufficient notice has been given to car manufacturers. It's time to put people first

Options B and C allow manufacturers two years before strong limits are set, which is more than enough time to adjust their supply.

The current Government has been clear about its intention to develop a New Vehicle Efficiency Standard since 2022, giving manufacturers time to prepare for the Australian market.

NVES have been in place in the EU and the US for decades, with Australia one of the last developed countries to implement one.

Some in the car industry claim that Australia's car market isn't large enough to attract fuel efficient vehicles, because we are a right-hand drive market. The United Kingdom (67 million people), Japan (123 million people), Malaysia (34 million people), Singapore (6 million people) and New Zealand (5.2 million people) are examples of countries around the world that also use right-hand drive cars where manufacturers are already selling millions of lower and zero emissions vehicles.

The lack of standards in Australia means people are paying more for transport costs. The draft regulatory impact statement for the introduction of fuel efficiency standards in 2016 estimated passenger vehicle drivers would be paying \$512 less by 2025 and ute drivers would be paying \$666 less, based on fuel costs of \$1.30 litre.⁸

The lack of NVES also means people in Australia are not gaining access to a wider range of more affordable EVs that are being sold in countries with stronger standards (there are more than 450 electric vehicle models produced⁹ and only about 30 models sold in Australia¹⁰).

In a few short months after implementation of NVES in New Zealand, the EV market share jumped from 4% to 20%,¹¹ with greater choice in the market, demonstrating that the market and the public has reacted quickly to their NVES.

Manufacturers will be able to keep selling a mix of cars, utes and vans in Australia providing the overall mix results in lower emissions. No manufacturer will have to pay fines if they do the right thing and offer a mix that includes the more efficient cars.

⁸https://www.infrastructure.gov.au/sites/default/files/migrated/vehicles/environment/forum/files/Vehicle_Fuel_Efficiency_RIS.pdf

⁹ <https://www.iea.org/reports/global-ev-outlook-2022/trends-in-electric-light-duty-vehicles>

¹⁰ <https://www.carsguide.com.au/ev/advice/how-many-electric-cars-are-there-in-australia-83262>

¹¹ <https://thedriven.io/2023/03/27/new-zealanders-happy-with-strong-fuel-efficiency-standards-as-ev-uptake-booms/>

Recommendations

Option C is better for people and planet

The Australian Government should pursue Option C for New Vehicle Emissions Standards (NVES) which has stronger emissions reduction targets and is more closely aligned with the European Union. According to the Government impact analysis the value of emissions reduction for Option C is higher (\$17.29 billion by 2025) compared to Option B (\$14.37 billion by 2050). Option C is necessary to ensure Australia meets its emission reduction goals and does its fair share to limit global warming to 1.5 degrees C.

Option C should also incentivise new suppliers to enter the Australian market, creating competition for lower-cost low emissions models and a larger range of models.

The Governments analysis predicts significant fuel savings with NVES, with higher fuel savings under option C (\$129.96 billion by 2050), compared to option B (\$107.6 billion by 2050). The analysis predicts additional benefits to people in reduced and maintained cost and health benefits, with option C having the greatest benefit.

While there are costs associated with both options B and C, they are offset by the benefits.

As noted above Options C allows manufacturers two years before strong limits are set, which is more than enough time to adjust their supply, noting they have been on notice for several years.

We note the Government's preferred position is option B, however we encourage the Government to consider design changes that could be made to Option C to still achieve its targets and trajectory, but address barriers to its implementation.

For example, restricted use of trading credit multipliers or 'super-credits' could be considered. In our previous submission we noted the risks¹² and our preference for them not to be used, however we also noted that if restrictions were put around the use of super credits this could help achieve the more ambitious emissions reduction trajectory and targets, and other benefits.

We would suggest restrictions include:

- Cap on emission reductions that can be claimed.
- Phased out quickly, ideally within 2 years.
- Only apply to zero emissions vehicles and preferably to lower cost zero emission vehicles to incentivise low cost EVs in the Australian market.

¹² Analysis from EU and US schemes have found super-credits and credit multipliers could weaken overall carbon reduction targets. They can lead to double counting and can be used to obscure real term emissions reductions. They can create perverse incentives where manufacturers/suppliers prioritise cars with multipliers rather than improve the efficiency of the whole fleet.

Recommendation 1

The Australian Government should pursue Option C for New Vehicle Emissions Standards (NVES). Option C is better aligned with limiting global warming to 1.5 degrees C and provides greater benefits to people and the community.

Recommendation 2

Consideration could be given to allowing restricted use of super-credits in exchange for implementing option C. Restrictions should include:

- Cap on emission reductions that can be claimed.
- Phased out quickly, ideally within 2 years.
- Only apply to zero emissions vehicles and preferably to lower cost zero emission vehicles to incentivise low cost EVs in the Australian market.

If Government pursues Option B it should be strengthened

The Governments preferred Option is B.

It includes less ambitious emissions reduction targets which would only have us catch up to the US standard while staying behind most other developed countries.

If the Government legislates Option B, the Government should clearly indicate it is intended as a floor and emission targets could be tightened following the 2026 review. This would enable the government to have measures in place in the likelihood it will need to achieve more ambitious economy-wide targets.

ACOSS also believes elements of option B could be strengthened along the lines of Options C.

ACOSS recommends increasing the penalty to \$200 per g/km of target exceedance as per option C and the EU¹³. The low penalty rate in Option B could operate within the profit margins of car importers, and therefore have no effect on their importation decisions. A higher penalty rate would act as an incentive to prioritise EV supplies in Australia.

Consideration could also be given to additional non-financial penalties such as excluding manufacturers from government fleet purchases and a public register of non-compliant manufacturers/suppliers.

Further, banking and trading of credits should be limited to 2 years (or less) as proposed in Option C. An analysis of credit banking over multiple years in the EU NVES concluded that it was posing a significant risk to achieving the emissions targets.¹⁴

¹³ EU has a penalty of \$197 per g/km (AUD equivalent)

¹⁴European Commission, "COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Proposal for a Regulation of the European Parliament and of the Council setting CO2 emission performance standards for new heavy duty vehicles", SWD/2018/185, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2018:0185:FIN>

Recommendation 3: The Government should indicate Option B is a floor and emission targets could be tightened following the proposed 2026 review.

Recommendation 4: If the Government pursues Option B, the penalty should be increased to \$200 per g/km of target exceedance as proposed in Option C.

Recommendation 5: If the Government pursues Option B, banking and trading of credits should be limited to 2 years as proposed in Option C.

Complementary measures to ensure no-one is left behind

As outlined in the discussion, people experiencing financial and social disadvantage are currently impacted by transport inequality and are more likely to rely on private transport for work, education, and access essential services due to barriers accessing public and active transport. People experiencing financial and social disadvantage are likely to benefit the most from access to more fuel-efficient vehicles. However, the cost of buying a new or even second-hand car can be prohibitive, leaving people experiencing financial and social disadvantage the last to benefit from cars that are cheaper to run. Complementary measures will be needed to build community support for NVES, enable people experiencing financial and social disadvantage to access fuel efficient cars sooner, and contribute to reducing poverty and inequality.

Recommendation 6: In parallel with regulating NVES, the Government should implement complementary measures to support uptake of low and zero emission cars and ensure people on low incomes are not last to benefit. The following measures should be implemented:

- Government should hypothecate revenue from financial penalties incurred for target exceedance to measures to support people on low-incomes access to low-cost low and zero emissions vehicles.
- Ensure greater access to charging infrastructure, including in low social economic areas, and regional and rural Australia.
- In recognition that over 50% of private vehicle purchases in Australia are from the second-hand market, and noting this figure is higher for younger people and low-income earners. The Government should quickly increase the supply of second-hand EVs in Australia, including by:
 - Developing policies to increase the supply of second-hand EVs independently imported to the Australian market, without compromising safeguards and consumer protections.
 - Working with State and Territory Governments and Local Councils to set new purchase and leased vehicle targets of 75% plus to be EVs by 2025 (matching the federal governments targets).
 - Provide support to the community services sector (where many organisations have fleets of cars across cities, urban, rural and remote areas to provide essential services to communities) to purchase EVs.
- Develop a package of measures to directly support uptake of EVs for lower-income households, this could include:

- Allocating a percentage of Government EV fleet as they enter the second-hand market to be made available to people on lower incomes.
- Access to no-interest loans on new and second hand EVs.
- Targeted means-tested subsidies.
- Social leasing scheme to low-income families.
- Develop regulations and safeguards to ensure that people and communities have appropriate protections including:
 - Protection against risks - such as limited battery life in second-hand cars.
 - Access to affordable and reliable insurance products when purchasing second-hand electric vehicles.
 - Maintaining 'consumers' right to repair' by preventing market participants from unfairly and unreasonably impeding third-party access to repair supplies.

The NVES must also be considered within a broader clean and equitable transport strategy.

A focus on incentivising uptake of privately owned electric passenger cars only will not deal with increasing congestion and transport inequality. The NVES must also be considered within a broader clean transport strategy that should focus on reducing the reliance on privately owned cars by investing in greater access to zero emissions public transport, shared transport, walking, cycling, mode shifting and other transport options.

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