



AUSTRALIAN  
AUTOMOTIVE  
DEALER  
ASSOCIATION

# RESPONSE TO THE FUEL EFFICIENCY STANDARD CONSULTATION PAPER

MAY 2023



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# FOREWORD

The AADA welcomes the opportunity to make a submission in response to the *Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia—Consultation Paper*.

The AADA is the peak automotive industry body which represents Australia's franchised new car Dealers. There are approximately 1,500 new car Dealers in Australia that operate over 3,000 new vehicle dealerships. Franchised new car Dealers employ more than 59,000 people directly and generate \$59 billion in turnover and sales with a total economic contribution of over \$14 billion.

AADA supports the introduction of a mandatory vehicle fuel efficiency standard (FES) in Australia and the broader goal to reduce Australia's transport related emissions. The establishment of such a standard is a critical piece in the suite of policies that will ensure manufacturers prioritise new low and zero emission vehicles (LZEVs) for the Australian marketplace. The FES needs to be ambitious, but it also needs to be achievable and developed by Government in very close consultation with the Australian automotive industry, particularly manufacturers who will be the entities that will need to make the investments to comply with the standard.

Australia has become an outlier in the global light vehicle market and has drifted behind other developed countries in introducing policy mechanisms to reduce emissions from its light vehicle fleet. This means that it is even more important for Australia to get the policy settings right for the introduction of a FES to ensure achievable and sustainable outcomes and

must be part of a broader package of incentives aimed at improving the affordability, demand and supply of EVs.

The franchised new car Dealer industry is supportive of a solution which allows consumers to access state of the art fuel-efficient vehicles, but which does not drastically reduce vehicle affordability or choice. To achieve this, the FES must be designed in a way that is suitable for the Australian market and needs a solution to suit our unique circumstances.

Some of these unique circumstances are strengths, such as most vehicles being exempt from import tariffs and Australians being early adopters of technology. These advantages do need to be considered against some of the factors which may serve to constrain the supply and uptake of LZVEs in Australia: our low-volume and right-hand drive vehicle status, the absence of passenger vehicle manufacturing, our distance from manufacturing centres. We also have a lack of diversity in supply of battery electric vehicles with one country supplying some 80% of vehicles.

These unique circumstances also need to be considered against our external environment and the many uncertainties which exist around the transition to zero emissions transport.

Very generous incentive regimes in overseas markets aimed at boosting electric vehicle manufacturing are starting to emerge and we are likely to see this trend continue due to increasing competition between traditional automotive manufacturing countries and new centres of vehicle manufacturing.

## Section 1

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In the absence of similar action, Australia risks being crowded out by this acceleration in EV investment, particularly in a supply constrained environment.

Questions also remain around supply of critical minerals and the ability to unearth the required amount to satisfy the booming global demand for EVs. In times of supply shortages, prices will remain high and EVs may be beyond the reach of many Australians.

We expect sales of EVs to continue to grow strongly in the coming years, but for many of the vehicles Australians are buying today, such as utes and SUVs, affordable battery electric vehicles are some way off. Other electrified technologies such as plug-in hybrids and traditional hybrids will be more suited to these vehicle types in the medium-term. It is crucial that OEMs are allowed to deploy a range of electrified technologies as they work to lower Australia's emissions – an ambitious and achievable FES will allow this to happen without compromising the affordability and choice of vehicles.

The AADA welcomes further engagement on the introduction and design of Australian Fuel Efficiency Standards.

**James Voortman**  
Chief Executive Officer



## **AADA KEY POINTS**

- 1. The AADA supports the introduction of a mandatory vehicle fuel efficiency standard (FES) and the broader goal to reduce Australia's emissions.**
- 2. The FES needs to be ambitious, but achievable and developed in consultation with the Australian automotive industry through the development of detailed Government modelling.**
- 3. The FES should apply to all vehicles first supplied to the Australian market, including used car imports.**
- 4. Any FES target must be implemented in conjunction with significant fiscal incentives designed to reduce the price gap with conventional vehicles.**
- 5. The FES should be flexible in allowing trading, pooling and banking of credits, account for off-cycle emissions reductions and super credits.**
- 6. The FES should take a cautious start approach and contain review mechanisms to consider acceleration of targets into the future.**

# Australia

3,026 Dealerships



**59,669**

Dealer Employees



**\$5.38 billion**

Dealer Wages



**\$2.74 billion**

Tax Contribution



**\$14.12 billion**

Total Economic Contribution



# RESPONSES TO GENERAL QUESTIONS

### Are these the right guiding principles? Are there other principles that you think we should keep in mind?

The AADA considers that the guiding principles listed in the consultation paper are suitable to ensure the FES achieves the desired outcomes of lowering vehicle emissions and saving consumer costs on fuel. The AADA agrees that the FES will need to be **effective** in reducing transport emissions from light vehicles and **equitable** to not negatively impact any particular group of people or part of Australia. An effective and equitable FES will be critical to ensuring a solution which allows consumers to access state of the art fuel-efficient vehicles, but which does not drastically reduce vehicle affordability or choice.

The AADA also considers that the guiding principle of **transparency** will be key to the effective implementation and regulation of an FES. One particular area of interest for the new car Dealer industry is the Specialist and Enthusiast Vehicle Scheme (SEVs) import market. As part of the FES, manufacturers and suppliers will need to ensure their vehicle fleet meets the standard set out in the FES or where suppliers don't meet the standard, they are penalised (usually, they need to buy credits from other suppliers, or pay a fine). The Government must consider the SEVs, where new and used cars are able to be imported at an uncapped rate and ensure that this scheme is not used as a back door to bring in a high-volume of used car imports which do not meet a FES. This would be counterproductive to the purpose of the implementation of FES and diminish the effectiveness of a FES to reduce transport emissions from light vehicles. Also, if a large number of EVs are

imported under the scheme it could have a number of adverse outcomes for consumers including undermining confidence in EVs among the Australian public, making Australia a dumping ground for old lithium-ion batteries and threaten Australian automotive businesses.

## Section 3

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### **Are there any design assumptions that you think will put at risk the implementation of a good FES for Australia?**

The AADA agrees that the introduction and effectiveness of a FES is vital in reducing Australia's transport related emissions, however, the design of the FES must be suitable for Australia and needs a solution to suit our unique circumstances. When designing a FES there needs to be consideration of the unique features of the Australian new car market. This includes Australia being a small, competitive, right hand drive market located a long way away from international automotive manufacturing centres. Australia is also a comparatively small market and is also one of the most competitive and deregulated car markets in the world containing 68 brands and 380 models.

These niche market requirements highlight the need for a FES to be designed in a considered way taking into account all of the complexities associated with policy changes to not only drive manufacturer supply choices but also drive considerable consumer behavioural change. The FES must carefully balance the different objectives of effectiveness and equitability, ensuring that the FES is fit for purpose for the Australian market taking into account Australian vehicle buying preferences and choices.

In a situation where the FES weighs particular design assumptions or guiding principles more heavily than others, it could lead to a situation where the effectiveness of the scheme in reducing emissions comes at the expense of equitability, and consumers are unable to access the vehicles they need for work and leisure.

The FES must also be outcomes focused and utilise performance-based criteria seeking to achieve its goals in a technology neutral manner. Policy mechanisms which seek to prioritise one technology over another can often lead to inefficient or adverse outcomes for consumers. It is important for governments to maintain a technology neutral approach when developing long term strategies to reduce emissions, in order to maintain consumer choice and encourage the development of lower emissions, cost-effective alternatives.



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**Are the exclusions for military, law enforcement, emergency services, agricultural equipment and motorcycles the right ones?**

Yes, the AADA considers that the FES should only apply to the light vehicle market and **military, law enforcement, emergency services, agricultural equipment and motorcycles** should be excluded from the scheme.

**What principles should we consider when setting the targets?**

When setting the average annual emission ceiling (the CO<sub>2</sub> target) there are a number of principles that should be considered to ensure that Australia is on the right emission reduction trajectory for our market.

**Australia's starting place**

As Australia is starting from behind, much of the world is on a trajectory to lower transport emissions with most of the developed world having already adopted a fuel efficiency standard in conjunction with strong incentives to drive the uptake of LZEVs.

We should have ambitious goals in order for us to achieve our net zero targets and bring us in line with much of the developed world, but it's also important that the implementation of the FES allows for sufficient time for suppliers to establish a pipeline to Australia of vehicles fitted with more efficient ICE technologies and LZEVs. There also needs to be consideration of significant technology development lead times for new cars entering the Australian market, from 5-7+ years depending on the vehicle size and type.

**Incentives and infrastructure**

Any FES target must be implemented in conjunction with significant fiscal incentives designed to reduce the price gap with conventional vehicles along with other incentives to ensure convenient and affordable publicly accessible chargers in Australia. Other jurisdictions which have implemented a stronger, more ambitious fuel efficiency standard have been accompanied by a large suite of incentives available to consumers to drive behaviour and uptake of LZEVs.

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Without a comprehensive suite of policies, Australia could continue to miss out on vehicles due to the scale of the incentives and charging being rolled in the other markets. The US for example through the Inflation Reduction Act is aiming to soak up a large proportion of the world's new EVs at the expense of other markets.

Potential incentives to support the uptake of LZEVs include price subsidies such as rebates or grants for purchasing a LZEV, tax credits and strong investment in accessible public charging infrastructure.

### **How many years ahead should the Government set emissions targets, and with what review mechanism to set limits for the following period?**

The AADA considers that the FES should be structured to set a long-term (10 year) emission reduction goal, to be reviewed every three years. The FES target can then be adjusted every two years following the review to ensure it is meeting the goals of the standard and long-term trajectory. As detailed below, the FES should take a cautious approach in the beginning to allow for adequate supply of vehicles which meet the FES into the market and can be reviewed if the market is overachieving the goals of the FES.

### **How should the Government address the risks of the standard being found to be too weak or too strong while it is operating?**

The AADA considers that when developing the FES and reviewing this standard over time that the risks for Australian consumers lie in a scenario where the FES targets are too strong to

begin with and they must be revised back, rather than being conservative and ramping up ambitions of the FES in the future.

The lead times for the development of vehicles is around five to seven years and if standards are found to be too stringent while in operation, it is difficult to wind back the production decisions that those OEMs have made as part of their global production schedules. By contrast if improvements in variables such as technology, price and supply help OEMs exceed targets it is much simpler to adjust those targets in line with improving market dynamics.

If the FES is too strong in the early implementation, the Australian market could end up in a situation where the vehicles currently most preferred by the market are unavailable. For example, utes are one of the most in demand vehicle types in Australia, and currently there is only one very expensive electric ute available in the Australian market whose performance is not comparable to the utes most Australians currently purchase. A situation where a FES discourages the widespread supply of utes, which Australian consumers desire, would be counterproductive to the objectives of the FES and result in consumers holding onto their older higher emitting vehicles for longer. We have already seen a situation in recent years whereby a restriction in new car supply has resulted in the average age of Australia's vehicle fleet increasing.

# RESPONSES TO TECHNICAL QUESTIONS

### **What should Australia's CO2 FES targets be?**

As stated above, the AADA considers that when determining what the CO2 target will be, it must be accompanied by a complete suite of other incentives available to consumers to encourage uptake of LZEVs. If the FES is to have a stronger, more ambitious CO2 target to begin with this must be accompanied by a very strong incentive package and a comprehensive EV infrastructure plan, whereas if the target is more conservative to begin with the incentive package to accompany the FES can be considerably smaller.

Before landing on a specific CO2 target, the Government should undertake to evaluate the level of improvement in vehicle efficiency that could be achieved through a fuel efficiency standard and at what cost, and consider this alongside the introduction of any incentives or policy mechanisms to encourage uptake of LZEVs. The AADA considers that the approach taken when determining Australia's CO2 target should be similar to the 2016, Bureau of Infrastructure, Transport and Regional Economics cost – benefit analysis that was undertaken for three different efficiency targets on a 'strong', 'medium' and 'mild' standard.

### **How quickly should emissions reduce over what timeframe?**

As detailed below, the AADA considers that the CO2 targets in the FES should enable a cautious relatively modest approach in the early years, then accelerating the trajectory over time to reach the end goal of net zero emissions by 2050. The market may well exceed this initial cautious approach and reach the net zero goal well ahead of 2050, but the approach to regulating new vehicle emissions should align with Australia's overall emissions reductions policies.

### **Should the Australian FES start slow with a strong finish, start strong, or be a straight line or take a different approach?**

The AADA recommends taking a cautious approach to the introduction of a FES. Setting a relatively modest target in the early years, then accelerating the trajectory over time would achieve the optimal results in weighing the principles of effectiveness and efficiency of the FES. The introduction of an overly stringent target in the early years of the FES risks consumers holding onto older higher polluting vehicles for longer if they are unable to get vehicles which meet their needs such as Utes and larger SUVs. This option allows suppliers more time to adapt to the standard while still achieving emissions reductions and would be less disruptive to the market.

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### **Should an Australian FES adopt a mass-based or footprint-based limit curve?**

The AADA considers that a mass-based approach should be adopted which more closely represents the FES introduced in markets similar to Australia. It is also closely aligned with the current voluntary FES scheme and allows technologies that add weight to the vehicle to be considered.

### **If Australia adopts a mass-based limit curve, should it be based on mass in running order, kerb mass, or another measure?**

The AADA has no comment.

### **Should Australia consider a variant of the New Zealand approach to address incentives for very light and very heavy vehicles? If so, noting that new vehicles that weigh under 1,200 kg are rare, where should the weight thresholds be set?**

The AADA does not support the approach taken in New Zealand. The AADA considers that it distorts the policy intent with little obvious benefit and additional administrative burden.

### **Should an Australian FES adopt two emissions targets for different classes of vehicles?**

Yes, any FES introduced should adopt two emissions targets for different vehicles with incentives and other design features of the FES able to be interchangeable between the two classes such as super credits. Separate targets should be applied to different vehicle categories, one target for cars and another for SUVs and light commercial vehicles as is done in other countries such as the US.

### **Is there a way to manage the risk that adopting two targets erodes the effectiveness of an Australian FES by creating an incentive to shift vehicle sales to the higher emission LCV category?**

The AADA considers that if a FES is introduced on a g/CO<sub>2</sub> per km basis it will minimise the risk that the adoption of two targets will erode the effectiveness of the FES by vehicle types being moved into other target categories.

### **Is there anything else we should bear in mind as we consider this design feature?**

The AADA has no comment.

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**Are there other policy interventions that might encourage more efficient vehicle choices?**

### **Inclusion of super credits**

Many countries which have adopted a FES have included provisions which enable manufacturers to further reduce their reported average emissions through the use of multipliers or super credits for certain advanced technology vehicles. The significant motivator in introducing a FES is to encourage suppliers to prioritise LZEVs for the Australian marketplace earlier than they would otherwise do so.

In the absence of significant fiscal incentives to complement the FES, it's important that other flexibility mechanisms must be designed into the FES framework, such as super credits. The inclusion of super credits in the FES would motivate suppliers to supply vehicles that far exceed the CO2 target, much earlier than otherwise needed, in order to balance out the overall emission profile of their fleet. The AADA is supportive of the inclusion of super credits or multipliers in the design of the FES as it encourages and rewards manufacturers who are supplying very low or zero emission vehicles onto the market beyond what is required under the FES and will allow consumers earlier access to advanced low emission vehicles.

**To what extent should the Australian FES allow credit banking, transferring and/or pooling?**

The AADA considers that banking, transferring and pooling of credits should be encompassed in the design of the FES.

### **Should credits expire? In what timeframe?**

The AADA considers that the credits and debits should have an expiry time frame of 5 years.

### **Should an Australian FES include off-cycle credits for specified technologies?**

The AADA is supportive of the inclusion of off-cycle credits, however, considers that they should be capped at 7 grams per reporting period.

There should also be additional credits for air conditioning separate from capped off-cycle credits, as per international standards.

### **If so, should the per-vehicle benefit be capped and how should an Australian FES ensure that off-cycle credits deliver real emissions reduction?**

As noted above, off-cycle credits should be capped at 7 grams per reporting period.

### **Should the Government consider any other form of off-cycle credits for an Australian FES?**

The AADA has no comment.

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**Should an Australian FES include credits for using low global warming potential air conditioning refrigerants, and if so, for how long should this credit be available?**

The AADA has no comment.

**Could the issue of high global warming potential refrigerants be better dealt with by another policy or legislative framework?**

The AADA has no comment.

**If such a credit is permitted, should the emissions target be lowered to ensure consumers realise the fuel cost savings and EV availability benefits of a FES?**

The AADA considers that the inclusion of off-cycle credits in the design of a FES should not feed into the determination of the CO<sub>2</sub> target. The use of off-cycle credits incentivises the use of technologies which reduce emissions in other components of vehicle use which would not otherwise be recognised under the FES. These technologies reduce the overall CO<sub>2</sub> profile of the vehicle and deliver real emissions reduction benefits and should be recognised as such.

**When do you think a FES should start?**

The AADA considers that the FES should commence as soon as the legislative and administrative processes can be put in place.

**How should the start date interact with the average annual emissions ceiling?**

The AADA has no comment.

**Should the Government provide incentives for the supply of EVs ahead of a FES commencing? If so, how?**

The AADA considers that there should be a strong incentive package available to consumers ahead of the introduction of a FES. International markets with a strong FES have a higher level of EV uptake and typically provide generous incentives to drive consumer uptake of LZEVs. For example, in 2021, the Biden Administration announced a target of 50% of cars and light trucks sold to be zero-emission electric vehicles by 2030 and followed this with a large package of incentives developed to support the achievement of the ambitious targets.

The use of incentives for encouraging the uptake of LZEVs will bring more affordable electric vehicles for Australians and should be implemented at a national level as a complementary measure to the FES. A lack of generous purchase incentives complementing a FES will mean that those markets which do have generous incentives will be preferenced over Australia by global OEMs.

**What should the penalties per gram be? Would penalties of A\$100 per gram provide a good balance between objectives? What is the case for higher penalties?**

The AADA considers that the penalty for breaching the targets of the FES, should be considered in conjunction with the CO<sub>2</sub> target, the introduction timeline, flexibility of the FES in terms of crediting, transferring and pooling of credits and other mechanisms contained in the FES such as off-cycle credits.



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**What if any concessional arrangements should be offered to low volume manufacturers and why? If so, how should a low volume manufacturer be defined?**

The AADA considers that concessional arrangements should apply to low volume suppliers which exempt them from the FES. The low volume manufacturer should be defined as a supplier which supplies 1000 units or less into the Australian market per year as a full volume type approval.

**The Government is keen to ensure any regulatory administrative costs are kept to a minimum while ensuring that outcomes are robust. What should the department keep in mind in designing the system for suppliers to provide information and in relation to record keeping obligations?**

The Government should consider the utilisation of reporting systems currently in place in order to reduce the administrative burden of the FES. For example, VFACTS measures vehicles sold by all Federal Chamber of Automotive Industries (FCAI) members and is currently the source of the motor vehicle sales data for the Australian Bureau of Statistics.

**What should the reporting obligations be? What information should be published and how regularly?**

The AADA has no comment.

**How long should suppliers keep required information?**

The AADA has no comment.

**Is a penalty of 60 penalty units appropriate for this purpose?**

The AADA has no comment.

**Should the regulator be the department? What other options are there?**

Yes, the AADA agrees that the Department of Infrastructure, Transport, Regional Development, Communications and the Arts should be the regulator of the FES. As noted in the consultation paper, the Department already holds a number of regulatory functions across the transport sector, covering land transport and has the expertise in relation to vehicle standards. It is important that any organisation which regulates the FES, must have appropriate technical capabilities to ensure monitoring, facilitating and enforcing compliance with the FES.

**How should the regulated entity be defined in an Australian FES?**

The AADA has no comment.

**What reasons are there to depart from the standard regulatory tool kit for an Australian FES?**

The AADA considers that the standard regulatory tool kit should apply to the regulation of the FES.

## Section 4

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**Should an Australian FES use WLTP test results in anticipation of the adoption of Euro 6 and if so, what conversion should be applied to existing NEDC test results, or how might such a factor be determined?**

The AADA agrees that the FES should use the WLTP test results to achieve the greatest consistency over time. A conversion factor should also be developed for converting NEDC results to WLTP results and follows the approach taken in other jurisdictions such as New Zealand.

## CONCLUSION

We would be happy to meet with you to discuss our submission and participate in any further consultation. If you require further information or clarification in respect of any matters raised, please do not hesitate to contact me.

**James Voortman**  
Chief Executive Officer





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