

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

31 May 2023

## 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 aim 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.

## Summary of recommendations

### Principles

**Recommendation 1:** amend the 'effective' principle to read "Effective in reducing transport emissions from light vehicles, to put Australia on track to meet the Paris Agreement of limiting global warming to 1.5 degrees C."

**Recommendation 2:** amend the 'equitable' principle to read "Equitable so all Australians can access the vehicles they need for work and leisure, and people experiencing financial and social disadvantage are not left behind."

**Recommendation 3:** amend the 'transparent' principle to include "Make clear and transparent to the public the true CO2 emissions reduction the standards will deliver year on year."

**Recommendation 4:** amend the 'enable' principle to delete "We want to avoid increasing the average age of vehicles in the fleet so there are no inadvertent safety impacts."

Fuel efficiency standards design features.

**Recommendation 5:** Create a trajectory of emissions reductions which trends towards zero by 2030, or 2035 at the latest, to ensure Australia meets its emission reduction goals and do its fair share to limit global warming to 1.5 degrees C. The trajectory should avoid leaving the biggest cuts in emissions to the 2030s.

**Recommendation 6:** Set ambitious initial targets for a 'strong start', rule out a 'cautious-start'.

**Recommendation 7:** Adopt annual targets which catch-up to the projected targets of the US, EU and New Zealand by 2027.

**Recommendation 8:** Set one target across passenger vehicle type. If multiple targets were established by vehicle type, they should all aim to reach 0 grams CO2/km at the same time.

**Recommendation 9:** the Fuel efficiency standard should be mandatory and legislated to start at the beginning of 2024.

**Recommendation 10:** The fuel efficiency target:

- Should be set to at least 2030.
- Allow for reviews every three years starting in 2026.
- Only be varied three years ahead.
- Can only be increased.

Fuel efficiency standards should be simple and transparent.

**Recommendation 11:** Allow credit-banking, trading of credits between manufacturers and pooling of credits over a single year.

**Recommendation 12:** Ensure transparent reporting on how each manufacturer has reached their target, including whether it utilised traded or banked credits.

**Recommendation 13:** Super credits and multipliers should not be used in the Australian FES.

**Recommendation 14:** If super credits and multipliers were included in the Australian FES, the following restrictions should apply:

- They must be capped in terms of emission reductions that are able to be claimed.
- Phased out quickly, ideally within 2 years.
- Only apply to zero emissions vehicles and preferable to lower cost zero emission vehicles to incentivise low cost EVs in the Australian market.

**Recommendation 15:** All data pertaining to a fuel efficiency standard should be collected and managed by a government agency and be transparent to the public.

### Financial penalties

**Recommendation 16:** Set a penalty of \$200 per g/km of target exceedance.

**Recommendation 17:** Government hypothecates financial penalty incurred for target exceedance, to measures to support people on low-incomes access to low-cost electric vehicles.

### Complementary measures

**Recommendation 18:** 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.
- The federal government work with State and Territory Governments and Local Councils to set new purchase and leased vehicle targets of 75% plus to be EVs by 2025.
- 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.

**Recommendation 19:** Invest in charging infrastructure, including in low social economic areas and regional and rural Australia.

**Recommendation 20:** develop a package of measures to directly support uptake of EVs for lower-income households, this could include:

- Allocate a percentage of second-hand cars 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.

**Recommendation 21:** 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.

**Recommendation 22:** In consultation, develop ZEV targets including across income, equity, and transport segments. The targets should be designed to promote the transition away from internal combustion engine vehicles (ICEVs) to ZEVs, rather than just to increase supply. Setting targets can stimulate demand and support a smooth and equitable transition.

# Discussion

ACOSS welcome the opportunity to provide input into the federal governments [consultation paper on the design of a Fuel Efficiency Standard in Australia](#). A Fuel Efficiency Standard (FES) sets an average carbon emissions target for new light vehicles<sup>1</sup> sold by each car maker every year. Introducing a Standard will oblige car makers to sell cars and utes that **on average** meet a limit for CO2 emissions (calculated as an average for all their cars sold), with penalties applied if they don't meet this standard. The Standard is tightened over time, which means that the mix of vehicles a car maker provides in Australia will include more electric vehicles (EVs) as time goes on, until 100% of new vehicles sold are zero emissions.

## Support implementation of ambitious fuel efficiency standards as part of a broader strategy to create more sustainable, affordable and accessible transport.

Transport emissions are the second largest source of emissions in Australia (19%), in part because we are one of two G20 countries that do not have in place a FES. 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 a FES in Australia mean 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 lack of Standards in Australia means people are paying more for transport costs and 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 produced<sup>2</sup> and only about 30 models sold in Australia<sup>3</sup>).

For these reasons, ACOSS supports the rapid implementation of ambitious FES.

However, a focus on incentivising uptake of privately owned electric passenger cars only, will not deal with increasing congestion and transport inequality. The FES 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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<sup>1</sup> Includes cars, SUVs, utes and 4-wheel drives.

<sup>2</sup> <https://www.iea.org/reports/global-ev-outlook-2022/trends-in-electric-light-duty-vehicles>

<sup>3</sup> <https://www.carsguide.com.au/ev/advice/how-many-electric-cars-are-there-in-australia-83262>

## Fuel efficiency standards and broader clean transport strategy should aim to reduce transport inequality.

We know that people experiencing 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.<sup>4</sup> Some international modelling has shown that the lowest quintile income household could achieve savings of up to 7% of total household income by 2030 through switching to EVs.<sup>5</sup>

However, the new EVs currently imported into Australia are prohibitively expensive for people on low incomes. The design of fuel efficiency standards should aim to drive more affordable electric vehicles into the Australian car market, and should be accompanied by complementary measures to ensure people on low incomes or experiencing disadvantage are not left behind and can access electric vehicles and charging infrastructure sooner.

## Strengthen principles around ambition, equity and integrity.

ACOSS welcomes the inclusion of principles to guide the FES, summarised below<sup>6</sup>:

- **Effective** in reducing transport emissions from light vehicles.
- **Equitable** so all Australians can access the vehicles they need for work and leisure.
- **Transparent** and well explained to avoid unintended consequences.
- **Credible and robust** by drawing on expert analysis and experience.
- **Enable** vehicles with the best emissions and safety technology to be available to Australians.

ACOSS recommends some amendments to the principles. In the principle of 'effective', we believe it should include a reference to emissions reductions goals.

*Recommendation 1: amend the 'effective' principle to read "Effective in reducing transport emissions from light vehicles, to put Australia on track to meet the Paris Agreement of limiting global warming to 1.5 degrees C."*

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<sup>4</sup> Sheldon, T. L. Evaluating electric vehicle policy effectiveness and equity. *Annu. Rev. Resour. Econ.* 14, (2022).

<sup>5</sup> 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.

<sup>6</sup> See page 12 of the [consultation paper](#) for full description of the principles.

We welcome the inclusion of 'equitable' as a principle. We would recommend making explicit that people experiencing financial and social disadvantage are no left behind.

*Recommendation 2: amend the 'equitable' principle to read "Equitable so all Australians can access the vehicles they need for work and leisure, and people experiencing financial and social disadvantage are no left behind."*

In the principle 'transparent' we recommend referring to public transparency and that the scheme is delivering what it should be.

*Recommendation 3: amend the 'transparent' principle to include "Make clear and transparent to the public the true CO2 emissions reduction the standards will deliver year on year."*

We have some concerns with the wording in the 'enable' principle. While we support the principle of encouraging the best emissions and safety vehicle technology in Australia, we do not want to dissuade the import of second-hand electric vehicle cars in Australia, which may not have the most recent safety technology, but would have safety features above many of the second-hand cars currently on Australian roads. We would recommend deleting the last sentence of the principle 'We want to avoid increasing the average age of vehicles in the fleet so there is no inadvertent safety impacts'.

*Recommendation 4: amend the 'enable' principle to delete "We want to avoid increasing the average age of vehicles in the fleet so there are no inadvertent safety impacts."*

## FES Design Features

FES CO2 targets should be mandatory, designed to be consistent with limiting warming to 1.5 degrees C, and catch up to other major markets by 2027.

The FES targets should be consistent with Australia's committed to achieving the Paris Agreement to limit global temperature increase 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.

The International Energy Agency's updated roadmap for net zero emissions by 2050 advocates for no new internal combustion cars sold anywhere by 2035.<sup>7</sup> 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.

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<sup>7</sup> IEA (2022) World Energy Outlook 2022 <https://iea.blob.core.windows.net/assets/830fe099-5530-48f2-a7c1-11f35d510983/WorldEnergyOutlook2022.pdf>

*Recommendation 5: Create a trajectory of emissions reductions which trends towards zero by 2030, or 2035 at the latest, to ensure Australia meets its emission reduction goals and do its fair share to limit global warming to 1.5 degrees C. The trajectory should avoid leaving the biggest cuts in emissions to the 2030s.*

Of the three options presented in the consultation paper on the co2/km targets and rate of decline,<sup>8</sup> ACOSS would prefer a 'strong start' approach to the FES trajectory.

With the US, UK, EU and New Zealand having already set ambitious fuel efficiency standards the supply signal to drive manufacturing of EVs has already been sent, with over 450 models now available world-wide.

While a strong start trajectory **may** be more disruptive to existing suppliers because they still supply a significant number of combustion vehicles, we would hope a strong start would incentivise new suppliers to enter the market. **This would provide more lower-cost models and a larger range of models, providing better options for more people in Australia.**

Solar Citizens' recent *Recharging Australia* report found that a strong start fuel efficiency standard for light vehicles of 95 grams CO<sub>2</sub>/km (competitive with European Union 2022 standard) would save Australian motorists \$11.2 billion in fuel costs over five years. This could boost EV sales from 14,255 in 2020 to more than 913,359 in five years.<sup>9</sup> Further the report found the stronger start would benefit regional drivers who typically spend a higher percentage of weekly earnings on transport costs.

New Zealand only implemented their fuel efficiency standards in December 2022. While it has a slower start it quickly catches up with the European Union by 2027. In a few short months the EV market share in New Zealand has already jumped from 4% to 20%,<sup>10</sup> demonstrating that the market and the public has reacted quickly to their FES, which should be the case in Australia.

A strong start would also support achieving an earlier zero Co<sub>2</sub>/km if Australia's emissions reductions targets ratchet up more quickly.

*Recommendation 6: Set ambitious initial targets for a 'strong start', rule out a 'cautious-start'.*

The US, EU and New Zealand emissions targets converge around 2027.<sup>11</sup> It is in Australia's interest to implement a trajectory to catch up to the rest of the world by that date. Otherwise, other countries will be prioritised for the supply of low cost zero emission vehicles.

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<sup>8</sup> Cautious start-finish strong, strong start, and straight line.

<sup>9</sup> [https://www.solarcitizens.org.au/roadshow\\_reports\\_australia](https://www.solarcitizens.org.au/roadshow_reports_australia)

<sup>10</sup> <https://thedriven.io/2023/03/27/new-zealanders-happy-with-strong-fuel-efficiency-standards-as-ev-uptake-booms/>

<sup>11</sup> [https://electricvehiclecouncil.com.au/wp-content/uploads/2022/09/EVC-Briefing\\_Increasing-the-supply-of-EVs-to-Australia.pdf](https://electricvehiclecouncil.com.au/wp-content/uploads/2022/09/EVC-Briefing_Increasing-the-supply-of-EVs-to-Australia.pdf)

*Recommendation 7: Adopt annual targets which catch-up to the projected targets of the US, EU and New Zealand by 2027.*

ACOSS preference is to have one target across passenger vehicles, off-road SUVs and light commercial vehicles. This is a simpler and easier to manage approach and would prevent 'category shifting' where automotive importers seek to sell models within the category with higher emission targets, leading to higher overall emissions. If multiple targets were established by vehicle type, they should all aim to reach 0 grams CO<sub>2</sub>/km at the same time.

*Recommendation 8: Set one target across passenger vehicle type. If multiple targets were established by vehicle type, they should all aim to reach 0 grams CO<sub>2</sub>/km at the same time.*

The FES should be mandatory and legislated in 2023. Given there are FESs in most G20 countries, car manufacturers and suppliers should be able to meet an Australian FES quickly. ACOSS therefore supports the FES starting at the beginning of 2024. ACOSS would support the Electric Vehicle Councils calls to set the initial trajectory to at least 2030, and to only enable the varying of targets three years ahead to provide certainty.

ACOSS also support the Electric Vehicle Councils calls for two reviews before 2030, in 2026 and 2029. This will enable decision makers to consider future targets and other design features in response to the science, Australia's' changing targets, changing market conditions and community attitudes. Targets should only be able to be increased.

*Recommendation 9: the Fuel efficiency standard should be mandatory and legislated to start at the beginning of 2024.*

*Recommendation 10: The fuel efficiency target:*

- *Should be set to at least 2030.*
- *Allow for reviews every three years starting in 2026.*
- *Only be varied three years ahead.*
- *Can only be increased.*

## **The FES should aim to be simple and transparent.**

Credit banking, transferring, and pooling.

ACOSS would support the banking of credits and the trading of credits between manufacturers, this should be limited to within a 12-month period. An analysis of credit banking over multiple years in the EU FES concluded that it was posing a significant risk to the reduction of emissions under a FES.<sup>12</sup>

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<sup>12</sup>European Commission, "COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Proposal for a Regulation of the European Parliament and of the Council setting CO<sub>2</sub> 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 11: Allow credit-banking, trading of credits between manufacturers and pooling of credits over a single year.*

Reporting on how each manufacturer/supplier has reached their target should be made public to support transparency and ongoing analysis as to the effectiveness of the scheme.

*Recommendation 12: Ensure transparent reporting on how each manufacturer has reached their target, including whether it utilised traded or banked credits.*

No multipliers and super credits should be included in the design.

Some car manufacturers are advocating for the use of super credits or other multipliers in the Australian FES scheme. ACROSS notes that super credits and other multipliers are being phased out in other jurisdictions as the market for EVs matures quickly. For this and the following reasons, they should not be included in the design of the Australian FES:

- Analysis from EU and US schemes have found they weaken overall carbon reduction targets.<sup>13</sup>
- They allow for 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.
- Reduce administrative burden.

*Recommendation 13: Super credits and multipliers should not be used in the Australian FES.*

*Recommendation 14: If super credits and multipliers were included in the Australian FES, the following restrictions should apply:*

- *They must be capped in terms of emission reductions that are able to be claimed.*
- *Phased out quickly, ideally within 2 years.*
- *Only apply to zero emissions vehicles and preferable to lower cost zero emission vehicles to incentivise low cost EVs in the Australian market.*

Data management should be transparent and managed by Government.

Currently, the Federal Chamber for Automotive Industries (FCAI) collects and provides sales and emissions data which it sells to government regulators. For a FES to have integrity, this data must be collected and published on a regular basis, by a government agency and not the industry.

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<sup>13</sup> Transport and Environment, "Car CO<sub>2</sub> review: getting Europe's car market 'fit for 55' on time and affordably T&E recommendations for the review of the EU car CO<sub>2</sub> standards", November 2021, [https://www.transportenvironment.org/wp-content/uploads/2021/11/2021\\_11\\_Car\\_CO2\\_position\\_paper.pdf](https://www.transportenvironment.org/wp-content/uploads/2021/11/2021_11_Car_CO2_position_paper.pdf)

*Recommendation 15: All data pertaining to a fuel efficiency standard should be collected and managed by a government agency and be transparent to the public.*

## **The FES should include financial penalties for non-compliance and hypothecate funds to incentivise access to EVs for people on low incomes.**

As with other jurisdictions ACOSS supports including a financial penalty for non-compliance. The EU has a penalty of \$197 per g/km (AUD equivalent) of target exceedance, Australia should look to match or exceed that penalty rate.

A low penalty 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.

ACOSS supports Greenpeace call for the penalty for an Australian FES to be set at \$200 per g/km of target exceedance.

*Recommendation 16: Set a penalty of \$200 per g/km of target exceedance.*

ACOSS would urge the Government to commit to hypothecate revenue raised from financial penalties incurred for target exceedance, to measures to support people on low incomes access low-cost electric vehicles.

*Recommendation 17: Government hypothecates financial penalty incurred for target exceedance, to measures to support people on low incomes access low-cost electric vehicles.*

Consideration could also be given to additional non-financial penalties such as ban from government fleet purchases and a public register if no-compliant manufacturers/suppliers.

## **Complementary measures**

Implement policies to encourage second-hand electric vehicles to provide options for people on low income.

Over 50% of private vehicle purchases in Australia are from the second-hand market. This figure is higher for younger people and low-income earners.<sup>14</sup>

This means that the fuel efficiency standards on new vehicles, on their own, are unlikely to:

- Provide access to enough low cost, electric vehicles for people on low- and middle-income, within the next 5-10 years.

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<sup>14</sup> <https://www.carexpert.com.au/car-news/used-cars-continue-to-get-cheaper-new-research-finds>

- Reduce transport emissions at the pace needed to limit global warming to 1.5 degrees C.

Importing second-hand EVs would provide access to lower cost EVs now, while we wait for a domestic second-hand market to be created over the next 3-10 years.

The Good Car Company operates in Australia providing affordable electric cars and vans across Australia by importing new and pre-owned electric vehicles from the UK and Japan. In 2022 The Good Car Company sold approximately 350 second hand Nissan Leaf's, compared to approximately 330 new Nissan Leaf's sold by Nissan, demonstrating strong demand for second hand electric vehicles in Australia.

Many existing vehicle manufacturers are opposed to incentivising second-hand import market because they are concerned, they will undermine the new car sales market. However, as indicated above they are very different markets.

Early stimulation of second-hand car market will also help establish sooner the service and battery upgrade industry for second-hand EVs.

*Recommendation 18: 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.*
- *The federal government work with State and Territory Governments and Local Councils to set new purchase and leased vehicle targets of 75% plus to be EVs by 2025.*
- *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.*

Invest in charging infrastructure in low social economic areas and regional and rural Australia.

*Recommendation 19: Invest in charging infrastructure, including in low social economic areas and regional and rural Australia.*

Other measures needed to directly support uptake of EVs for lower-income households.

In addition to stimulating a second-hand market, develop a package of measures to directly support uptake of EVs for lower-income households.

*Recommendation 20: develop a package of measures to directly support uptake of EVs for lower-income households, this could include:*

- *Allocate a percentage of second-hand cars 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 (see New Zealand Policy<sup>15</sup>).*

Ensure there are appropriate consumer protections in place.

*Recommendation 21: Develop regulations and safeguards to ensure that people and communities have appropriate protections including:*

- *Protection against risks.*
- *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.<sup>16</sup>*

Develop electric vehicle targets including across income, equity, and transport segments.

*Recommendation 22: In consultation, develop ZEV targets including across income, equity, and transport segments. The targets should be designed to promote the transition away from internal combustion engine vehicles (ICEVs) to ZEVs, rather than just to increase supply. Setting targets can stimulate demand and support a smooth and equitable transition.*

## Acknowledgements

This submission was prepared in consultation with the ACOSS Climate and Energy Policy Network. We'd also like to acknowledge the contributions of the Electric Vehicle Council, Good Car Company, Greenpeace, the Smart Energy Council and members of the Transport Working Group of the Climate Action Network Australia.

## Contact

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<sup>15</sup><https://www.beehive.govt.nz/release/transport-drive-down-emissions#:~:text=%24569%20million%20for%20Clean%20Car,upon%20scrapping%20their%20old%20vehicle>.

<sup>16</sup> [Inquiry report - Right to Repair - Productivity Commission \(pc.gov.au\)](#) p. 12-13.