

31 May 2023

Submission to the Fuel Efficiency Standards Consultation

About Boundless Earth

The vision of Boundless is an Australia we can all be proud of – a prosperous, renewable energy superpower and a global force towards a decarbonised world. Our purpose is to accelerate climate solutions at the scale and speed required for Australia to do its fair share to avert the climate crisis.

We use the levers of philanthropy, investment and direct advocacy to make change and get Australia on the path to becoming a renewable energy superpower by 2030.

Boundless Earth welcomes the opportunity to provide a submission to help shape and inform Australia's fuel efficiency standards.

Key points

To deliver on the Government's emissions reductions goals and improve the supply of electric vehicles (EVs), the fuel efficiency standards must:

- Deliver a strong headline average emissions target to 'catch up' with international markets (such as the European Union and the United States) by 2027
- Be simple, with minimal loopholes, exemptions and super-credits
- Deliver an end date for the supply of internal combustion engine (ICE) vehicles by 2035 at the latest, and preferably 2030

There remains a very strong case for the implementation of strong fuel efficiency standards in Australia. While demand for EVs is improving, supply remains tight and our fleet remains one of the highest emitting in the developed world. Without strong standards, Australia risks continuing to be a dumping ground for high-emissions vehicles and lagging behind on transport decarbonisation.

We strongly encourage the government to model the proposed standard to ensure it meets governments' (federal, state and territory) EV sales targets and emissions reduction targets.

Principles and assumptions

We believe the most appropriate guiding principles for the development of Australian fuel efficiency standards are:

- Ambition – to catch us up to major markets, put Australia on track to meet our Paris Agreement commitments and ensure manufacturers prioritise Australia for their zero-emissions vehicles
- Integrity – make the true annual emissions reduction clear and transparent and minimise complexity
- Equity – deliver low emissions vehicles for all Australians

Together, standards based on these principles will deliver clear and transparent emissions reduction and incentivise importers/manufacturers to supply cheaper low emissions vehicles for all Australians.

In relation to the design assumptions, we suggest:

- Removing the assumption that the standards will "Consider vehicle affordability, lifetime cost and model availability". It is no accident that SUVs are the highest selling vehicle class in Australia. As the most profitable class for manufacturers, they have spent decades advertising to Australians about our need for high emitting SUVs. The FES should prioritise emissions reductions and the wellbeing of Australians over car manufacturers' profits. Small cars and EVs means less pollution, improved health outcomes and cost savings.

- Introducing a new assumption which states that the standards will “Reduce the average size and emissions of new vehicles over time”. Without this assumption, there is a chance that the standards could simply maintain the supply of high-emitting SUV-dominated light vehicles.

Recommendations – Principles and assumptions

1. We recommend using the following guiding principles: ambition, integrity and equity.
2. We recommend adjusting the design assumptions to better prioritise emissions reductions over manufacturers’ preferences/profits.

Design features

As per our *Key points* section above, we suggest the standards ensure we ‘catch up’ with international markets (such as the EU and NZ) by 2027. Ideally, the emissions would be measured/tested using the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) – so that vehicle importers which choose to import the most modern vehicles do not have to re-test their vehicles using an outdated test method (NEDC). If, however, using WLTP would create delays in the implementation of the standards, we suggest providing manufacturers with the option of NEDC or WLTP, until such time as Euro 6 noxious emissions standards are introduced in Australia. Where appropriate, aligning with NZ’s approach and using their NEDC-WLTP conversion factors will also minimise costs/delays for vehicle importers.

To minimise the risk of creating standards which don’t actually reduce emissions, the standards should be as simple as possible, with minimal loopholes and exemptions. Loopholes and exemptions could allow vehicle manufacturers to game the system, since the manufacturers have a significant information/data power advantage over the government (and civil society).

The standards should start strong. The light vehicle sector is relatively easy to decarbonise (as shown by comparable markets such as New Zealand) and we must quickly reduce these emissions if we are to meet Australia’s 2030 emissions reduction target. The earlier and more quickly we introduce EVs into the Australian fleet, the easier the abatement task.

We think limit levels should be adjusted up to four years in advance. This strikes a balance between the fact that we are lagging in terms of light vehicle emissions compared to nearly all other vehicle markets, that we are a technology taker and a smaller right-hand drive market.

Conducting a review of the standards after one year would allow the government to consider how the scheme was working and whether to increase emissions limits (but not reduce). Internationally, demand and supply of EVs is accelerating, suggesting there is minimal risk of the standards being too strong for the Australian market. After the first year, we suggest reviews every three years.

In relation to the use of the limit curve – we believe adopting NZ’s model has many advantages:

- Using a mass-based limit curve over a footprint-based limit curve more closely correlates to the emissions of the vehicle – meaning the curve can be more easily designed to improve the fuel efficiency of the vehicles.
- Flattening the limit curve below 1,200 kg and above 2,000 kg for passenger vehicles incentivises importers to supply EVs and smaller vehicles.
- It creates efficiencies for importers, making it easier for them to understand the new Australian regulations (having already been subject to the NZ regulations).

A single emissions target is a simpler approach which would result in more rapid emissions reductions. However if the Government proceeds with dual targets, we suggest the government carefully consider what other safeguards within the standards (or separate policies) it could implement to avoid eroding the emissions impact via shifting vehicle sales into a higher category. Ideally, both targets would be strong and move in tandem on a similar trajectory.

We agree that the standards should allow credit banking, transferring and/or pooling to incentivise the supply of the most efficient vehicles sooner. Credits should expire after one year to maximise the incentive for

suppliers to deliver emissions reduction benefits sooner. These flexibility arrangements should be subject to review to ensure that they are working as expected.

As noted above, we believe the standards should not include bonus credits for new/innovative technologies, including off-cycle credits, air condition refrigerant gas credits or super-credits for EVs. We note that we originally called for the temporary use of super-credits for EVs in our submission to the National Electric Vehicle Strategy consultation. Given the delay in implementing the FES, and the fact EV sales will likely hit the 10 per cent tipping point by 2024, we no longer think super-credits are required.

The standards should start as soon as possible, from a defined period (no more than six months) after passage to allow administrative arrangements to be put in place. This will balance the risk of reaching the government's emissions reduction targets, with global manufacturers' ability to supply the vehicles to Australia. We also agree that the standards should allow suppliers to opt-in from when the legislation enters into force to incentivise the earlier supply of EVs.

The penalties for exceeding limits should be on par with the cost of the penalties in the EU (approximately AUD200 per g/km) to incentivise global manufacturers to send their best cars to Australia. A high penalty rate also means that low emissions vehicles generate more valuable credits.

Small volume and niche importers should be captured by the standards. Introducing a threshold creates a potential loophole. It would also incentivise the import of low emissions vehicles by smaller importers, thereby reducing the cost of those vehicles.

The government should establish a reporting framework that provides an independent and publicly available source of new vehicle sales data, managed by the government. The department should be the regulator and the regulated entity should be the company selling the vehicle for the first time in the Australian market. The test standard should be WLTP. The standards must regulate the provision of timely, accurate, accessible and free data to the government, for publication. The data must show actual abatement of each importer/manufacturer and vehicle type.

Recommendations – Design features

We recommend:

3. Using WLTP and aligning with NZ where possible
4. Implementing simple standards with minimal loopholes and exemptions
5. Starting strong
6. Setting limit levels four years in advance
7. Conducting a review of the standards after one year, and every three years thereafter
8. Adopting NZ's approach to the limit curve, with a single emissions target
9. Enacting the standards as soon as possible (and no more than six months after passage), while allowing manufacturers to opt in earlier
10. Penalties of AUD200 per g/km, equivalent to the EU
11. Ensuring small volume and niche importers are captured by the standards
12. Creating an independent and publicly available source of new vehicle sales data, managed by the government.

Other complementary measures

To complement the light vehicle fuel efficiency standards, we strongly recommend the government also consider how to reduce the emissions from the rest of the transport sector, including:

- Light and heavy vehicle fleet targets for large businesses like rental car companies, logistics and freight companies, fleet management companies etc. Bulk purchase of fleet vehicles boosts supply to Australia, and also creates supply in the second-hand market after 2–5 years. While the timing of this measure will need to be managed carefully to avoid excessive supply constraints to individual consumers, the higher capacity utilisation of fleet vehicles means that increasing EV uptake in this sector will drive more emissions reduction.
- Heavy vehicle EV / fuel cell EV sales targets for vehicle importers and manufacturers. This could be implemented more quickly than heavy vehicle fuel efficiency standards.
- Incentives or regulation to electrify all Australian buses by 2030.
- Quickly introducing Australian-equivalent Euro 6d noxious emissions standards and any net positive changes to fuel quality standards which facilitate the introduction of Euro 6d. Euro 6d standards will reduce the average noxious and greenhouse gas emissions across the whole fleet and provide Australians with better and safer cars.
- Converting ICE vehicles into hybrids or full EVs (e.g. through a retrofit program / incentive scheme).
- Incentives to move from ICE vehicles to e-Bikes where appropriate (such as France has introduced)
- Removing old, high emitting vehicles from the road (e.g. through a rebate program).
- Reducing the emissions intensity of fuels used in combustion engines (e.g. through the introduction of renewable/low carbon fuel standards and/or creating a mandate to blend petroleum fuels with renewable fuels).
- Developing websites and creating an education campaign on how to minimise fuel use (and save money) for users of plug-in hybrid EVs and ICE vehicles and the advantages of using renewable fuels.

Finally, we recommend harmonising Australian vehicle standards with international standards to reduce the cost and burden of importing new vehicles to Australia. This includes updating the Vehicle Type Approval requirements in Australia to allow direct acceptance of type-approved electric vehicles from global major markets in full volume supply under the *Road Vehicle Standards Act 2018*.

Conclusion

Fuel efficiency standards with ambition, integrity and equity will give us smarter, more cost efficient cars that are a better driving experience and avoid the noxious and greenhouse gas emissions which threaten the wellbeing of Australians. We strongly encourage the government to reframe the standards around the opportunity and benefits of electric vehicles for all Australians. We don't need to accept the status quo – there is a better way.

Thank you for the opportunity to provide this submission. For further information please contact Dione Scheltus, Government Relations Lead, at dione@boundless.earth.

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