# State Government of Victoria

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Attention: Director, Fuel Efficiency Standards

**CONSULTATION PAPER – THE FUEL EFFICIENCY STANDARD – CLEANER, CHEAPER TO RUN CARS FOR AUSTRALIA**

The Victorian Government welcomes the opportunity to make a submission on the Department of Infrastructure, Transport, Regional Development Communications and the Arts' (DITRDCA) Consultation Paper – The Fuel Efficiency Standard (FES).

Victoria has committed to achieving net zero emissions by 2045 and ambitious interim emissions reduction targets towards this goal, including 45-50 per cent by 2030 and 75-80 per cent by 2035. All other Australian jurisdictions have committed to achieving net zero emissions by 2050 or earlier.

Reducing transport emissions is essential for Victoria and Australia is to meet their net zero emissions goals. Transport emissions make up 25 per cent of Victorian emissions and 19 per cent of Australian emissions and are projected to be Australia's largest source of emissions by 2030. Road transport is close to 85 per cent of transport's emissions, and approximately 62 per cent of transport emissions come from light passenger vehicles. On average, new passenger vehicles in Australia have around 20 per cent higher emissions than the United States (US), and around 40 per cent higher emissions than in Europe (EU).

To meet our emissions reduction targets in a cost-effective way, we need ambitious policies that can help reduce emissions and encourage the development and deployment of new zero emissions technologies in the transport sector.

Reducing transport emissions – including by transitioning from internal combustion engines (ICE) to zero emissions vehicles (ZEVs) – will require action by both the Commonwealth and states and territories. Australia's light vehicles are all imported. The Commonwealth, which controls imports and already has vehicle standards legislation, is best placed to make sure Australia gets the most fuel efficient, cost effective, high performance new vehicles available in the global vehicle market. A strong FES at the Commonwealth level will be a key driver of this change.

**Victoria's Zero Emissions Roadmap**

Victoria is doing its part to encourage the transition to zero emissions vehicles. In May 2021, the Victorian Government released its ZEV Roadmap, putting forward a suite of policies and programs to remove barriers to ZEV uptake and leverage opportunities associated with the impacts of this critical transition. Victoria also committed $100 million in 2021 towards the decarbonisation of the transport sector given transport emissions are the second largest contributor to emissions in Victoria (private vehicles being the largest contributor within transport). This included $46 million for Australia's first public ZEV subsidy program, and a commitment to a target of half of all new light vehicle sales to be ZEVs by 2030.



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In addition, in October 2021, Victoria, along with other Australian states and territories, was signatory to the CO26 transport declaration in Glasgow committing to convert the Victorian government's car and van fleets to ZEVs by 2035. The declaration also committed Victoria to putting in place policies that will enable, accelerate, or otherwise incentivise the transition to ZEVs as soon as possible, to the extent possible given our jurisdictional powers. This was further bolstered by leading manufacturers committing to work towards reaching 100 per cent zero emission new car and van sales in leading markets by 2035 or earlier. The signatories included Ford, GM, Mercedes-Benz and Volvo.

**ZEV sales are increasing but more action is required**

Since the Roadmap's launch, new ZEV sales in Victoria have increased from 2.2 per cent of total new vehicle sales in 2021 to 4 per cent of total new sales in 2022.

Despite the encouraging growth in sales, the market share of EVs in Australia is still well behind many parts of the world, including the US, EU, and New Zealand (NZ). In 2021, EVs were just under 2 per cent of new light vehicle sales in Australia (0.23 per cent of the total Australian fleet), compared with 9 per cent new vehicle sales globally. In 2021, the US and Canada, new EVs had a market share over 5 per cent and in the EU, EV sales accounted for 17 per cent of total sales. In the past year in NZ, EVs have gone from 2.5 per cent of new vehicle registrations to over 11 per cent.

**A strong FES is critical to meeting our net zero goals**

Victoria welcomes the Commonwealth Government's commitment to introduce Australia's first national FES. Victoria has consistently advocated for the introduction of strong national standards since the Commonwealth released a Regulatory Impact Statement (RIS) on the issue in 2016. Victoria also highlighted the importance of strong national standards in Victoria's *Climate Change Strategy* and *Zero Emissions Vehicle Roadmap,* which were both released in 2021.

A FES will help reduce emissions by introducing more efficient ICE vehicles to the Australian market and supporting uptake of ZEVs. To ensure we achieve this the Commonwealth Government should consider the following design principles:

- *Nationally consistent* – setting ambitious targets/trajectories to drive significant transformation in the light vehicle fleet over the next decade, consistent with national and state emissions reduction targets.
- *Ambitious and strong incentives* – targets should be broadly comparable to leading markets, such as the EU, the US and NZ, with material penalties for non-compliance, to provide stronger incentives for vehicle suppliers to bring in ZEVs.
- *One target* – standards should apply across all light vehicles (vehicles under 4.5 tonnes gross vehicle mass) and allow manufacturers and the market to determine how they meet the average $CO_2$ per kilometre target. This means avoiding any carve outs, exemptions and concessions for higher-emitting vehicles within the standard's design.
- *Fast acting* – standards should start no later than 2024 with a trajectory that brings Australia quickly into line with international markets. The Commonwealth Government could adopt a similar approach to NZ. Thereafter, standards should continue to tighten in a manner consistent with achieving economy-wide net-zero targets, noting that the sale of new internal combustion engine vehicles will need to be phased out well in advance of this timeline.
- *Short phasing* – complete phasing in for the local market within one to two years of commencement to ensure changes begin to happen quickly, and to best position Australia to benefit in a rapidly changing international car market.

Anything less than the steps outlined above will mean Australia continues to be left behind this decade, requiring more costly interventions in the 2030s and 2040s to reach Australia's 2050 net-zero emissions target.

**Consumers will benefit from a strong FES**

Strong standards provide additional and important benefits for Australian drivers, the broader community and the economy. These include:

- *Lower fuel costs* – standards are internationally proven to deliver significant fuel savings for drivers. A 2022 report from the Australia Institute showed that $5.9 billion in fuel costs alone would have been saved if robust fuel efficiency standards were adopted in 2015. These cost-saving benefits would also have benefitted regional drivers more than city drivers owing to typically higher distances travelled. In addition, the Commonwealth Government's 2016 RIS found that national standards would save motorists $27.5 billion in fuel costs and produce net economic benefits of $13.9 billion by 2030.
- *Improved fuel security* – more efficient vehicles lead to less fuel consumption, helping improve our national fuel security through reduced dependence on internationally sourced energy.
- *Health benefits* – the 2021 Victorian Climate Change Strategy Economic Analysis found that reduced air pollution from vehicles could generate health benefits of around $21 billion for Victoria by 2050 (2019 values) due to improved air quality.
- *Greater choice of better vehicles* – the International Energy Agency Global EV Outlook 2022 report shows that there were over 450 EV models available globally in 2021, with 184 of these models in the EU and 80 in the UK. Australia, in sharp contrast to the EU and the UK, had only 45. While a FES will not stop the supply of any specific vehicle, it will incentivise overseas vehicle manufacturers to send lower emissions vehicles and more ZEV models to Australia, placing downward pressure on these vehicles' prices and help drive greater innovation and competition for the benefit of Australian consumers.

**A FES alone is not sufficient – Victoria supports broad action on transport emissions**

While Victoria considers strong national fuel efficiency standards a critical step in the decarbonisation of road transport, most analysis indicates that standards will not be sufficient to deliver our emissions targets and generate the other benefits associated with the ZEV transition. International experience shows a FES needs to be accompanied by other policy measures including vehicle taxes and charges reform, additional market incentives, infrastructure development, more support for mode-shift, industry support, industry and community information and further regulatory action.

The Commonwealth Government's recently released National Electric Vehicle Strategy (NEVS) with its focus on measures to incentivise the uptake of low emissions vehicles and ZEVs, is an important component of Australia's emerging policy response. Victoria looks forward to working further with the Commonwealth Government, other States and Territories on this work through the six priority areas of national collaboration identified in the NEVS.

Please find our detailed responses to the series of questions posed in the FES consultation paper in **Attachment 1**.

Thank you for the opportunity to provide input into the FES consultation paper. If you would like to discuss any of the issues raised in this submission further, [redacted]

Yours sincerely,

[redacted]

**John Bradley**
**Secretary**
**Department of Energy, Environment and Climate Action**

25 / 05 / 2023

[redacted]

**Paul Younis**
**Secretary**
**Department of Transport and Planning**

31 / 5 / 2023

## Attachment 1 – Victorian Government response to consultation paper: The Fuel Efficiency Standard – Cleaner, Cheaper To Run Cars For Australia

| FES consultation paper questions | | Victorian Government response |
|---|---|---|
| **General questions** | | |
| 1 | Are these the right guiding principles? Are there other principles that you think we should keep in mind? | The guiding principles are broadly appropriate.<br><br>Victoria makes the following observations:<br>• Effective – the principle of 'effective' should be more specific to support emissions reductions consistent with achieving national and sub-national emissions reduction targets, including net zero goals.<br><br>• Equitable – this principle should not just consider upfront cost of vehicles or fuel costs alone, it needs to be more holistic to include other externalities, air quality etc. This principle needs to be truly equitable. |
| 2 | Are there any design assumptions that you think will put at risk the implementation of a good FES for Australia? | Victoria encourages the Commonwealth Government to apply the FES across all light vehicles (vehicles under 4.5 tonnes) and allow manufacturers and the market to determine how they meet the average $CO_2$ per kilometre target. To ensure an effective FES for Australia, the Commonwealth Government must avoid any carve outs, exemptions or special concessions.<br><br>The light vehicle market in Australia is increasingly dominated by SUVs and light commercial vehicles (including utes), with the share of sales almost tripling since 2010 and reaching 76.8 per cent of the market in 2022. Many of these vehicles are used for both commercial and private passenger purposes. Data from the National Transport Commission found that 2021 average emissions intensity for passenger cars and light SUVs was 146.5 g/km, while heavy SUVs and light commercial vehicles was 212.5 g/km. This recent market trend potentially compromises efforts to improve overall vehicle fleet fuel efficiency and emissions. It is important the standard does not inadvertently lock in this trend by setting separate and weaker standards for a light commercial vehicle category that includes utes and heavy SUVs. Doing so would give the market further incentives to supply more emissions-intensive vehicles when lower emissions alternatives are available.<br><br>Some may argue that the consumer preferences for utes and SUVs and the fact these vehicles are more difficult and expensive to electrify requires the application of different policy settings for these vehicles. This is not the case. A strong but well-designed standard will not stop the supply of any specific type of vehicle in Australia – it will allow the market itself to decide what volume and mix of vehicles be supplied domestically. It will also spur further innovation in vehicle technology and broaden the range of ZEV vehicles available to Australian car buyers. Special concessions and carve-outs would delay and stifle innovation. |

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| | | Victoria encourages the Commonwealth Government to not extrapolate current sales data as reflecting strong consumer preferences without considering how other factors such as taxation may be playing a role. While the recent change at the May 2023 Federal Budget to instant tax write-offs (up to $150,000 for commercial vehicles that have a one tonne or greater payload limit) is welcomed, the influence of any instant write-off and other tax concessions should not be underestimated. Taxation settings have played a critical role in sales trends this past decade.<br><br>It is clear any concessions or carve out of vehicles segments and/or inclusion in a separate weaker standard for light commercial vehicles would be a regressive step and potentially entrench a trend that could compromise Australia's emissions reduction effort. Flexibility mechanisms that allow the trading of credits between manufacturers can allow the continued sale of certain vehicles while zero-emission versions are developed. |
| 3 | Are the exclusions for military, law enforcement, emergency services, agricultural equipment and motorcycles the right ones? | Fleet-wide emissions standards can accommodate special use cases as the standards do not target specific vehicles. The emissions from these applications should not materially impact the Australian fleet total emissions owing to the relatively small number of vehicles.<br><br>However, should the Commonwealth include any exemptions these need to be highly qualified and targeted towards highly specialised vehicles, rather than applying a blanket exemption rule for certain sectors/industries. Special cases should be limited *within* applications such as military, law enforcement, emergency services vehicles, agricultural equipment and motorcycles. This is because many vehicles used for military, law enforcement and emergency services are also light vehicles and there is no compelling reason to allow light vehicles used for these sectors to be exempt from the FES.<br><br>Any blanket exemption could also have unintended consequences to the broader vehicle market, given some or many of these vehicles will eventually find their way into the second-hand market.<br><br>Any exemption mechanism should also be time limited, requiring regular review; require suppliers to provide fuel efficiency improvement plans as condition of exemption and/or require suppliers to buy offsetting credits. This will reduce incentives to use such exemptions as a loophole to supply less efficient vehicles under the standard. |

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| 4 | Are there any particular FES features that you think we need to take particular care with? | Particular attention must be given to the interaction between the following three key factors to determine overall FES effectiveness:<br><br>1) setting of targets, timing and trajectory<br>2) use of flexibility mechanisms (credits)<br>3) attitude to bonus credits.<br><br>Strong targets can be compromised if an excessively liberal approach is used for compliance credits. A robust design is needed to deliver real and early emissions reductions.<br><br>Credits for exceeding targets should be tradeable between manufacturers. This assists early adopters of ZEV technology and can be used as a tool to ensure manufacturers that are reliant on higher emitting vehicle sales are not unfairly penalised while they develop ZEV alternatives. This principle is consistent with mechanisms for trading ACCUs under the Safeguard Mechanism for large emitters.<br><br>The use of super credits for low and zero emission vehicle technology should be applied to target zero emission vehicles in the initial stages of a FES. This will ensure that early developers of zero emission technology are encouraged. Limiting the super credits to the initial stages of the standard will mitigate the risk of a large number of credits undermining the FES. |
| 5 | What principles should we consider when setting the targets? | Three key principles should be considered when setting targets and trajectories under the standard. They must be:<br><br>• *Effective*: Produce significant and early emissions reductions consistent with national and state emissions reduction targets, including net zero goals.<br><br>• *Aligned*: The FES must align as soon as possible with the standards of major international markets. The EU and the US are considered the most relevant benchmarks for this purpose.<br><br>• *Calibrated*: targets must also take account of potential impacts of targets on future domestic vehicle price, model range and supply, particularly in the early implementation stages. |
| 6 | How many years ahead should the Government set emissions targets, and with what review mechanism to set limits for the following period? | Victoria considers a rolling 4–5-year time period with annual updates to be appropriate. This aligns with international comparators. This will ensure the market always has a 4-5-year planning horizon for investment decisions while ensuring Government retains its capacity to update and adjust targets in light of market developments and a rapidly changing international outlook. The rolling 4-5 time period also reduces the risks of locking in a sub-optimal outcome. |

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| 7 | How should the Government address the risks of the standard being found to be too weak or too strong while it is operating? | To avoid these risks, Victoria encourages the Commonwealth Government to:<br>• Adopt strong settings that align with leading international markets like the EU, the US or NZ. Australia is a small market internationally with right-hand vehicle drive requirements, meaning any settings would need to be comparable with UK/EU in markets to be effective.<br>• Introduce a regular independent review mechanism (annual) to ensure issues can be quickly identified and addressed. This will ensure the Commonwealth has access to the most credible and up to date data on vehicle sales to prevent non-compliance and allow it to adjust policy settings as required.<br>• Ensure the legislative framework allows for targets and credit rules to be amended (tightened or loosened) as required to help adjust market behaviour. |
| **Technical Questions** | | |
| 8 | What should Australia's $CO_2$ FES targets be? | Australia should aim to align its standards as fast as possible with major international markets such as EU, US or NZ, and once aligned must keep pace with any improvements to those standards as comparable markets mature.<br><br>Starting from this basic principle, setting of the targets should also be informed by an assessment of the implications for local vehicle price, model range and supply. The aim should be to find a practical pathway for converging with international standards as soon as possible, while taking account of any specific issues with local market response in the early implementation stages.<br><br>Many countries, including the UK and members of the EU, are planning to phase out sales of new ICE vehicles in the 2030s. This implies further significant adjustments in international standards over the next few years. This emphasises the importance of Australia taking decisive and ambitious steps now in setting its own targets. The stronger the target, the better positioned Australia will be to adjust to the implications of any further changes in a rapidly changing international market. Note that aligning with international trends will also help ensure availability of technology. |
| 9 | How quickly should emissions reduce over what timeframe? | Meeting national and sub-national emissions targets requires significant emissions reductions from Australia's light vehicle fleet.<br><br>The significant gap that already exists between the performance of Australian and overseas vehicles and the emerging international drive to phase out ICEs in the 2030s means the Australian car market has to prepare for a rapidly changing future.<br><br>Australia will be better prepared if it implements ambitious targets early to help drive the necessary changes over the next decade. |

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| | | Significant change has to happen over the next ten years in order to realise the targets agreed to by the signatories to the COP26 declaration for a ZEV transition in light vehicle fleets from 2035. |
| 10 | Should the Australian FES start slow with a strong finish, start strong, or be a straight line or take a different approach? | Victoria encourages the Commonwealth start strong given how far behind we are with the rest of the world. Starting strong will also be critical to give us sufficient time to meet our net-zero emissions target by 2050, minimising the risks of any costly interventions in the 2030s and 2040s.<br><br>Owing to the long operational life of vehicles, emissions reductions made early compound to generate greater total savings in the future, further underlining the need for strong upfront standards.<br><br>Once on the road, cars have the potential to stay in use for decades. The FES should account for the need to allow time to retire the remaining ICE vehicle fleet. The need to start strongly is also supported by recent modelling from the International Council on Clean Transportation (December 2022). The analysis modelled four scenarios, showing that aligning with world-class standards like those already adopted in the EU, NZ and California in the US, Australia can almost fully decarbonise its light domestic vehicle fleet by 2050. Achieving such targets requires implementation of a strong FES as soon as possible to reduce the possibility of large volumes of ICE vehicle on the road in 2050. For further information, see Fuel efficiency standards to decarbonize Australia's light-duty vehicles - International Council on Clean Transportation (theicct.org). |
| 14 | Should an Australian FES adopt two emissions targets for different classes of vehicles? | One target covering all vehicle classes is preferable in principle. This maximises industry's response options, ensures scheme efficiency and minimises the risk of encouraging further demand shift counter to the scheme's intent because of differences in the standards applying to different vehicle classes |
| 15 | 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? | If the standard features two or more targets, large SUVs and utes should not be in the light commercial vehicle category. Doing so would further encourage the use of these types of vehicles as passenger vehicles, which is inconsistent with the goal of improving the overall fuel efficiency and emissions of Australia's vehicle fleet vehicles. In addition, any adoption of two targets should be introduced as a temporary measure at the beginning of the FES, with a clear roadmap for the two targets to merge into one target as the higher-emitting vehicles market matures. However, as noted above, the adoption of two targets is not our preferred position. |
| 26 | When do you think a FES should start? | As previously noted, Victoria encourages the Commonwealth to start as soon as possible (no later than 2024). This is because |

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| and 27 | How should the start date interact with the average annual emissions ceiling? | Australia is already far behind leading markets, which have already had a FES for several decades.<br><br>While Victoria recognises the need for the introduction to be phased to allow the local market to adjust, given it is a small market internationally and Australia relies mostly on vehicles that are developed for other markets, that phase-in can be short (1-2 years) as we prepare the market for convergence in line with leading international markets. As suggested in response to question 6, the settings should be reviewed regularly (annually), with a rolling 4-5 year horizon.<br><br>NZ, which is a relatively small (albeit smaller than Australia) right-handed market, may provide lessons on how this can be done effectively. The NZ trajectory in 2023 starts from a similar starting point as Australia but is designed to bring the country into line with international markets by 2027. |
| 29 | 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? | Penalties for non-compliance by OEMs need to be material to ensure a strong FES. Victoria suggests looking at leading markets like the EU as a potential benchmark.<br><br>Strong penalties for non-compliance will ensure manufacturers do not continue to have incentives to send their most inefficient vehicles to Australia as a way of avoiding stronger penalties in other jurisdictions. |