



Volkswagen Group Australia Pty Ltd

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# Volkswagen Group Australia submission to the National Fuel Efficiency Standard

## Introduction

**Volkswagen Group Australia** is this country's leading importer of European passenger vehicles.

Consisting of the VW Passenger Vehicle and VW Commercial Vehicle brands, Audi, SKODA and Cupra, the national sales company sold some 50,000 vehicles in 2022 despite severe supply constraints. The company is on track to considerably exceed that total in 2023.

Headquartered at Zetland in inner city Sydney, VGA owns or operates facilities in the Sydney CBD (Cupra Garage), Chullora in south west Sydney, Essendon Fields and Derrimut in Victoria. In 2025, a new warehouse facility at Kemp's Creek in Western Sydney will supplant Chullora.

The company employs some 300 people on staff to handle all aspects of VGA's operations - supporting sales growth, the network of dealerships, customer experience, service facilities and media/public communications. Thousands are employed nationwide through the brands' 180 combined dealerships.

The breadth of VGA's product portfolio is unrivalled; from Volkswagen's Polo city car to Audi's RS e-tron GT electric supercar with every segment between and a dominant light commercial vehicle arm besides. VGA is class leading in all segments of the automotive market in which it competes.

VGA will become a dominant force in battery electric vehicles. Audi and Cupra have BEVs in market today with more models scheduled; Volkswagen will have five separate EV lines in Australia by 2025 and SKODA at least two. By 2028, VGA is expected to be selling more EVs and Plug-in Hybrid Electric Vehicles than conventional vehicles.

VGA strongly supports the introduction of National Fuel Efficiency Standard.

Achieving ambitious targets needs a supporting EV ecosystem, including, as a priority, a comprehensive, interoperable and integrated charging infrastructure network across the important areas in the nation. High Power charging along motorway and major trunk roads, charging solutions in metropolitan areas with limited off street parking, destination locations, rural areas and at home and in the workplace need to be implemented.

Charging anxiety remains one of the prime customer concerns. In the interest of customer certainty and the overall market development, EV infrastructure rollout and the future trajectories should be linked in the target.

Owning and using an electric vehicle must be convincing and effortless for customers.

Herewith VGA addresses specific questions put in the FES Consultation Paper.

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

Starting from the current level of average emissions and targeting an average rate of improvement equitable with other developed markets – though regard to the lack of direct support to the consumer in Australia that is available elsewhere. The reduction rate starts from current market performance factored in terms of weight and Co2 emissions. This is in line with global best practice.

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

Australia is almost unique in that the great distances between its major cities are sparsely populated. The reduction rate has a crucial link to the uptake of infrastructure. The rate should be set so that OEMs do not have to push against the market.

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

VGA recommends review every four years.

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

Government should start from the current level of average tailpipe CO<sub>2</sub> emissions from the new vehicle market and target an average rate of improvement commensurate with other developed markets. With a banking/borrowing scheme, a linear curve could be recommended rather than a 'cautious start'.

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

A mass based approach. The vehicle mass is closer to the physical energy demand than footprint.

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

As long as Australia uses the NEDC, the mass in running order (as in Europe) should be the reference. When Australia uses WLTP as reference cycle the individual vehicle test mass should be used (or the test mass of WLTP reference line, depending of the handling of WLTP data). The Volkswagen Group position is a standard based on WLTP (with necessary NEDC conversation as per NZ). Australia emission law allows different emission stages and drive cycles, therefore a conversion of CO<sub>2</sub>/mass values from different drive cycles as New Zealand should be included.

**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?**

It is always difficult to set the boundaries free of discrimination, therefore Europe has not the boundaries in the calculation formula, where less than 900kg there is a “natural” boundary of what is called a car and the upper boundary is given by the emission test scope. Due to technical restrictions of battery weight EVs are of higher weight comparing to ICEs. A 2000kg weight cap similar to NZ penalizes alternative propulsion technology.

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

Yes. MA and MC+NA should have different targets.

**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?**

VGA sees no risk. The vehicles are developed for the global market - not as a unique model developed in consideration of an individual country's FES with a unique categorisation of the vehicle classes. Inserting a review clause also with monitoring the shifting of vehicle classes may mitigate the risk.

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

The afore mentioned use case of light commercial vehicles and their payload carrying requirements makes it more challenging to electrify their powertrain. The mass of traction battery and other EV hardware detract from the payload available for commercial purposes.

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

A banking, transfer and trading scheme is highly recommended. For simplification, a voluntary “pooling” for importers would reduce the administrative burden for the importer. Start with a four year lead time or borrowing scheme. For example, in the UK debits in first years will be balanced in the later years of the first three years after

regulation. Implementation only Agreement with FCAI + recommendation of UK “borrowing-scheme”. If a brand is initially non-compliant, it can redress the balance in subsequent two years – but not beyond that.

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

Credits should expire as in the US law (by 5 years)

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

Usually, when a AC/OC Scheme is introduced, the targets will be more stringent. Due to the fact that the incentive regulations for Off-Cycle Credits (in US) and EcoInnovations (in EU) are different, instead of installing a complicated scheme with high bureaucratic effort, the target should be incorporated that no AC/OC Scheme is installed. If there is a necessity for a incentives, it should be a scheme with a low burden (menu list).

**Should an Australian FES include multiplier credits for LZEVs?**

Multiplier credits should apply to BEVs and PHEVs, but not HEV. Multipliers based on CO<sub>2</sub> output (so-called technology agnostic), do not support multipliers for ‘HEV’ equivalents, which have a higher CO<sub>2</sub> output than a PHEV.

**When do you think a FES should start? How should the start date interact with the average annual emissions ceiling? Should the Government provide incentives for the supply of EVs ahead of a FES commencing? If so, how?**

FES should start as soon as legislation can be drafted and passed and administrative arrangements can be put in place to operate the system. It could be more readily brought about with the provision that it is based on the “borrowing scheme” as a flexibility first years only, where debits can be balanced in the following years by surplus.

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

Any penalty should minimize the risk of brands withdrawing from the market and limiting consumer choice. The New Zealand example shows that this risk is considerable.

**For further information:**

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