AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

SUBMISSION TO THE CLEANER, CHEAPER TO RUN CARS: THE AUSTRALIAN NEW VEHICLE EFFICIENCY STANDARD, CONSULTATION IMPACT ANALYSIS

MARCH 2024

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FOREWORD

The AADA welcomes the opportunity to respond to the Cleaner Cars Consultation Paper.

The AADA is the peak industry advocacy body exclusively representing Australia's 3,179 franchised new car Dealers. New car Dealers are predominantly privately-owned family businesses operating in cities, suburbs and regional towns across the country. The industry directly employs more than 61,000 people making a total economic contribution of over $18 billion.

New car Dealers are committed to a cleaner future through reduced light vehicle emissions and support the introduction of a New Vehicle Efficiency Standard (NVES) for light vehicles. **However, the preferred option put forward by the Government, Option B, goes too far too fast and will have serious implications for consumers on vehicle choice and affordability.** If Option B is implemented as is, there is a real risk new car sales volumes will decline which will only increase the age of Australia's vehicle fleet, adversely affecting the sector's emissions reduction efforts.

This proposal requires manufacturers to dramatically reduce their emissions over a very short period of time by the standards of new vehicle product planning cycles. It is difficult to see these targets being met without a significant escalation in the sales of electric vehicles, during a time in which global sales of EVs are slowing. Furthermore, the limited availability of affordable and capable EVs in the popular Ute and SUVs categories are further cause for concern.

CONTRIBUTION OF NEW CAR DEALERS TO AUSTRALIAN ECONOMY

TOTAL ECONOMIC **CONTRIBUTION**

$18.6 BILLION

ANNUALLY

DEALER **EMPLOYEES**

61,447

DEALER **WAGES**

$7.3 BILLION

ANNUALLY

NUMBER OF **DEALERSHIPS**

3,179

TAX & DUTY **CONTRIBUTION**

$6.8 BILLION

ANNUALLY

Section 1

Affordable and capable EVs in the Ute and SUV segments simply don't exist suitable for the volume segment of the market. These categories of vehicles will simply need more time to meet these targets.

The modelling put forward in the Government's impact analysis needs to consider the full suite of costs and benefits of owning and operating a new EV, including depreciation and higher repair and insurance costs.

While Option B seeks to catch up with the United States, it does so without the benefit of time, incentives, and flexibility, which are all key features of the US approach to reducing vehicle emissions. The US is poised to roll back its targets and the Government needs to adjust their targets to match and include all of the flexibilities that the US embedded in their system.

We urge the Government to consider the recommendations being put forward by the industry, so that we are able to implement a New Vehicle Efficiency Standard which delivers environmental outcomes, while allowing an appropriate transition for consumers and the many automotive businesses and their employees.

James Voortman
Chief Executive Officer

[redacted]

AADA RECOMMENDATIONS

1. Categories and Timing

a. Re-categorise SUVs and four-wheel drives from the Passenger Vehicle Category into the Light Commercial Vehicle Category.

b. Extend the timeframe to achieve the 61% reduction from five years to seven years for Light Commercial Vehicles.

c. Adjust targets to align with pending changes to the US targets.

d. Commence the scheme with penalties of $20 per g/km increasing gradually over the target period.

e. Commit to biannual reviews after the initial review in 2026.

2. Flexibility

a. Allow for the provision of Super Credits for HEVs, BEVs and PHEVs as was available in earlier stages in the United States.

b. Allow Manufacturers to utilise off-cycle credits as is done in the Unites States.

c. Allow Manufacturers to utilise air conditioning credits as is done in the Unites States.

d. Allow for the pooling of credits as is done in the US.

e. Consider inclusion of early credits (2023-2024) as was available in the early stages in the US.

3. Complimentary Measures

a. Develop a scrappage scheme which incentivises renewal of Australia's vehicle fleet.

b. Increase the Instant Asset Write Off up to the car limit and expand access to all business.

c. Exempt PHEVs from FBT beyond 2025.

d. Provide EV incentives for low-to-middle income earners.

e. Abolish the Luxury Car Tax.

f. Abolish the Passenger Vehicle Tariff.

4. Compliance

a. Ensure that the point of compliance with the NVES for manufacturers is at the point of sale.

b. Ensure vehicles being brought in under the Specialist and Enthusiast Vehicle Scheme are required to comply with the NVES.

AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

DEALERNOMICS

CONTRIBUTION OF NEW CAR DEALERS TO AUSTRALIAN ECONOMY

DEALER
WAGES
$7.3 BILLION
ANNUALLY

TOTAL
ECONOMIC CONTRIBUTION
$18.6 BILLION
ANNUALLY

TAX
& DUTY
CONTRIBUTION
$6.8 BILLION
ANNUALLY

SALES
/TURNOVER
$73.9 BILLION
ANNUALLY

DEALER EMPLOYEES
55,917

APPRENTICES
5,530

TRAINING
INVESTMENT
$31 MILLION
ANNUALLY

WORKSHOP JOBS
COMPLETED
OVER 48 MILLION
ANNUALLY

CUSTOMER FINANCE
CONTRACTS FACILITATED
476,978
ANNUALLY

NUMBER OF
DEALERSHIPS
3,179
TOTAL

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OVERVIEW OF THE AUSTRALIAN MARKET AND ITS NEW CAR DEALERS

The Australian automotive market is quite different to our international counterparts such as the United States (US) and the European Union (EU). Australia is a small, competitive, right hand drive market located a long way away from international automotive manufacturing centres. While Australia is a comparatively small market, it is also one of the most competitive in the world containing 68 brands and 380 models and over 2,000 variants. **The implementation of the NVES as proposed under Option B will significantly damage the competitiveness of our market and could lead to poor outcomes for consumers particularly those located in regional and rural areas and those on below average incomes.**

The Australian automotive new car retailing industry can be broadly defined into two categories. Vehicle manufacturers or OEMs, which are largely multinational businesses which supply vehicles into the Australian market. Car Dealers, which are generally Australian privately owned or family businesses who enter franchise agreements to purchase vehicles from these manufacturers to retail to Australian consumers.

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 NVES 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 lower and zero emission vehicles in Australia. We also have a lack of diversity in supply of battery electric vehicles with one country supplying some 80% of vehicles. These unique circumstances need to be considered against our external environment and the many uncertainties which exist around the transition to zero emissions transport.

While the NVES will require compliance by the OEMs, it is Australia's 3,179 new car dealerships which will carry the commercial risk if this policy has an adverse outcome for the industry. As retailers, it is Dealers which take on the risk of holding vehicle inventory which is underwritten by a floorplan finance facility. It is Dealers which have invested significant capital in state-of-the-art facilities and equipment. It is Dealers which employ over 61,000 people and 5,000 apprentices. It is Dealers who sponsor countless sporting teams and donate to so many charities in communities across Australia. Simply put, it is the Dealers, their employees, and their communities which will suffer through the unintended consequences of this policy.

COMPARISONS WITH SIMILAR MARKETS

As described above Australia is unique in its automotive market, and comparisons between vehicle efficiency standards introduced internationally and the proposed NVES is fraught with problems. Nevertheless, there has been much recent comparison between Australia and the US due to our similarities in driving preferences, vehicle choices and urbanised landscape. While we are similar in many respects, the proposed NVES design has significantly deviated from what has been done in the US.

Option B sets Australia on a course to catch up with the current US's scheme as well as the US's Environmental Protection Agency's (EPA) preliminary proposed figures from 2027-2029. It seems almost certain that the proposed 2027-2029 targets will be revised downward due to their stringency not aligning with a slowdown in EV sales underway in the US. It is critical that the Australian Government which is a taker of automotive technology keeps abreast of this situation and adjusts to the US position when it is announced.

It is well known that the US has had some form of vehicle efficiency standard in place since the 1970's, with the most recent form being the EPA Greenhouse Gas (GHG) standards and the National Highway Traffic Safety Administration (NHTSA) Corporate Average Fuel Economy (CAFE) standards. The differences between Australia's proposed NVES and US standards are highlighted across a few key areas, these include, headline targets, technology credits and categorisation of vehicles through a footprint-based system.

The US currently has a headline target of industry-wide target of 161 carbon dioxide grams per mile (g/mi) in 2026[1]. Between 2004 and 2023 vehicle CO2 emissions in the US have decreased 27%, equating to an annual improvement rate of roughly 1.4%. This is in stark contrast to the proposed annual reduction rate for the NVES of 12%[2].

Over the last decade the US GHG also included several provisions which provide compliance flexibility to manufacturers to meet the standards without compromising the program's overall environmental and energy security objectives. These included an incentive multiplier for CO2 emissions compliance purposes (commonly known as supercredits) for all EVs, plug-in PHEVs, and fuel cell vehicles (FCVs) sold from 2017 through 2021. Along with air conditioning improvement credits. This is also very different from the proposed NVES model which allows for no technology credits such as supercredits and air conditioning credits. It also allowed for the phase-in of penalties from a much lower base than what the Government is proposing.

The US CAFE standards also set easier emissions standards for vehicles that have larger 'footprints,' measured as the area between the points where the wheels touch the ground. This is in recognition of the unique challenges manufacturers face in improving the fuel economy and GHG emissions of larger vehicles such as pickup trucks, while preserving the utility (e.g., towing and payload capabilities) of those vehicles[3].

	US System	Australia under Option B
New Vehicle Market Sales p.a	15.5 million	1.2 million
New Vehicle Imports %	41%	100%
Side of Road	Left-hand Drive	Right-hand Drive
Time	48 Years	5 Years
LCV Categories	Includes SUVs	Does not include SUVs
Supercredits	Yes	No
Off-cycle Credits	Yes	No
Air-conditioning Credits	Yes	No
Federal EV Purchase Incentive - new cars	$7,500 USD ($11,484 AUD)	$0
Federal EV Purchase Incentive - used cars	$4,000 USD ($6,124 AUD)	$0

The NHTSA tasked with overseeing the US CAFE acknowledges that incentives are needed to promote increased application of advanced technologies such as battery electric vehicles (BEVs) in the early years, which could achieve economies of scale that will support the wider application of these technologies to help achieve the more stringent standards in the future[4].

CONSIDERATION OF THE TOTAL COST OF OWNERSHIP

The AADA is concerned that in the assessment of the potential costs and benefits of the proposed Options, key components which are essential to assess have been omitted.

This includes:

- **Repairs and maintenance** – average annual spend on maintenance, tyres and accident management fees.

The cost difference between repairing an EV compared with an internal combustion engine vehicle (ICE) can be significant, and in some cases the additional cost to repair an EV versus an ICE vehicle can be as high as 25%. This is largely attributable to the significant part the battery of an EV plays in the overall structure of the vehicle and its value. A research report published by Thatcham Research highlights that the most significant challenges with EV repairs originate from the high voltage (HV) battery "BEV batteries represent a substantial percentage of the original vehicle value and are therefore rapidly presenting negative impact to the economic model of vehicle repair"[5]. Insurers in some cases are writing off entire cars just because of minor physical damage to battery casings due to the cost, which has flow on effects for insurance premiums as highlighted below. The cost associated with repair was highlighted by global car rental company Hertz which recently sold 20,000 EVs from its fleet citing costs for collision and damage were significantly higher than equivalent ICE costs[6].

- **Insurance** – premiums paid for compulsory third-party (CTP) insurance, comprehensive insurance and excess payments required in the event of accidents.

Insurance premiums for EVs are often significantly more than premiums for ICE vehicles. After electricity costs, comprehensive insurance is the second-biggest ongoing expense for Australian EV owners[7]. The Insurance Council of Australia attributes the higher cost of EV insurance to a range of factors, "from the expense of imported parts and electric car batteries to the dearth of electric vehicle service centres and qualified EV repairers"[8].

- **Residual value** - The residual value a customer can expect to receive upon disposal of the vehicle.

Depreciation / residual value is a cost that is often overlooked as it is not paid out by the owner at any point, but rather incurred over the life of the vehicle and realised upon disposal. However, with more than 2 million vehicles being sold every year in the used market, it is essential that this value be taken into account in assessing any potential costs or benefits for purchasers of new vehicles. The previously mentioned Hertz example cited a staggering $245 million in charges related to depreciation expenses from its EV disposal program.

Each month the AADA and AutoGrab release the Automotive Insights Report which provides statistics on Australia's used car market. To demonstrate the disparity between the retained value between EVs, hybrids and the entire market, the below table shows the significant cost of depreciation for EV buyers.

For the month of January - retained value of used EVs and Hybrids.

AGE	EVs	HYBRID	ENTIRE MARKET
0-2 years	84.9%	107.6%	96.6%
2-4 years	63.8%	98%	85.4%
5-7 years	17.5%	55.8%	69.6%

The three examples above highlight the importance of assessing the total cost of ownership of a vehicle, particularly when considering this as an input into any cost benefit analysis. This enables a more accurate identification of what benefits, if any, exist from owning and running an EV in place of an ICE vehicle, and should be included when modelling the potential savings for consumers as a result of the implementation of the NVES.

The AADA is also concerned that the modelling which underpins some of the key assumptions in the consultation paper has not been made publicly available. When developing policy that has significant potential impacts on almost every consumer, it is essential that these inputs and assumptions are able to be assessed and tested by industry.

IMPACTS OF IMPLEMENTATION OF OPTION B IN CURRENT FORM

The consultation paper describes Option B as a strong, ambitious target which seeks to catch Australia up to the US, by reducing the average annual CO2 for new sales by 12.2% for passenger vehicles (incl. SUVs) and 12.4% for light commercial vehicles, with an overall target for total CO2 intensity reduction between 2024-2029 of 61% and 62%. The reductions are some of the steepest seen in the world and they are highly dependent on a rapid take up of EVs. The AADA has serious concerns that not only is this proposed Option not achievable it will have far-reaching consequences for consumers and small businesses alike. This proposed timeline for reaching headline targets up to 2029 does not acknowledge the significant lead time the US has had to reach these fuel efficiency limits, the significance of automotive manufacturing to the US economy and the inclusion of flexibility mechanisms and incentives.

CURRENT AND PREDICTED VEHICLE FLEET

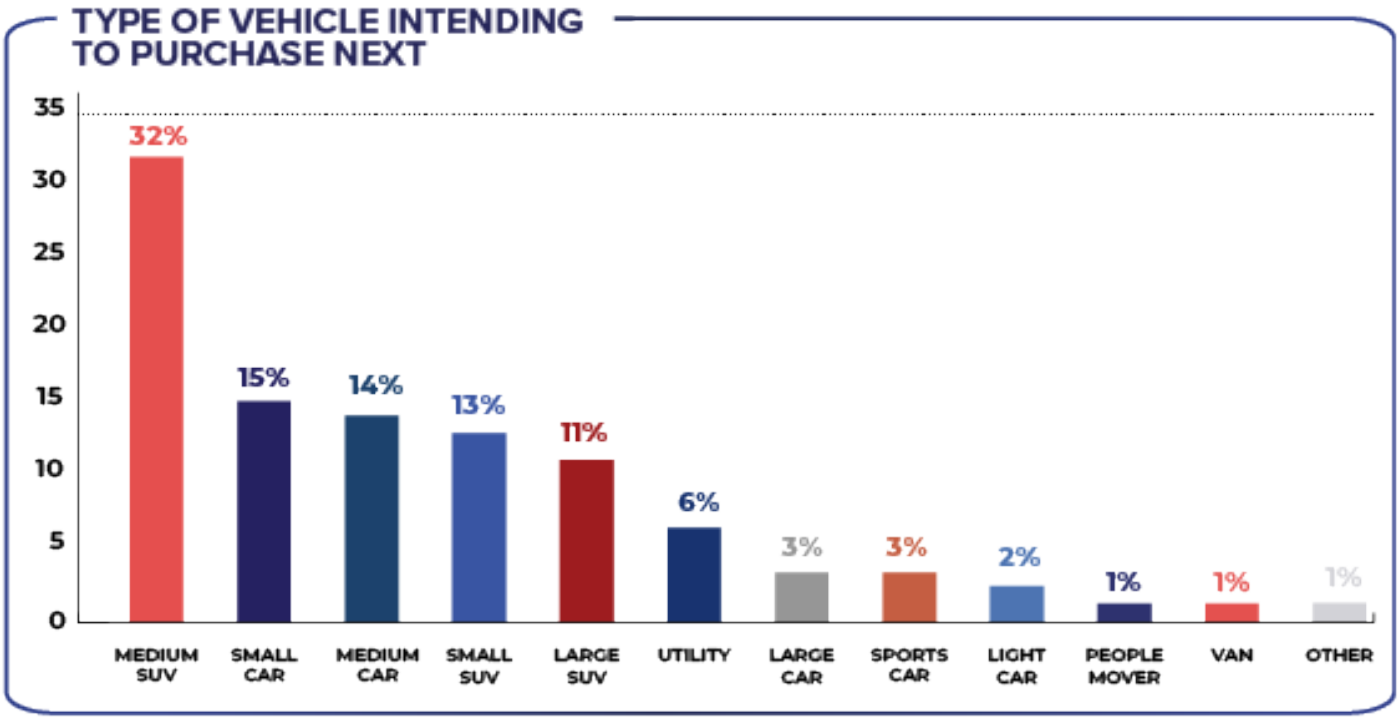
In recent years, Australians have begun to preference larger SUVs and Utes over other vehicle types when purchasing a new vehicle. Australia's current light vehicle fleet sales are heavily dominated by SUVs and Utes, making up the top four models with over 184,000 units sold in 2023[9], and for the first time on record no traditional 'passenger cars' – hatchbacks, sedans, wagons, coupes or people movers – finished among the 10 top-selling new motor vehicles in Australia in 2023[10].

TOP 10 CARS IN FULL-YEAR 2023

	MODELS	VOLUME
1	Ford Ranger	63,356
2	Toyota Hilux	61,111
3	Isuzu Ute D-Max	31,202
4	Toyota RAV4	29,627
5	MG ZS	29,258
6	Tesla Model Y	28,769
7	Mitsubishi Outlander	24,263
8	Mazda CX-5	23,083
9	Hyundai Tucson	21,224
10	Toyota Prado	20,710

Australians purchase these vehicles for their utility, tradies who need a larger tray to store tools and equipment and transport them to job sites along with the payload or towing capacity needed to tow machines or heavy loads. Families who need extra seats for children or extra space for car seats, grey nomads looking to purchase an appropriate vehicle to tow their caravan or drivers who regularly travel significant distances with limited infrastructure. As a heavily urbanised and geographically large country, it is no surprise that Australians prefer the practicality, perceived safety and versatility that these larger vehicles provide.

Recent data released by the AADA in the '*EV & Hybrid Vehicle Wave 2 Insights Report*' shows that this trend is set to continue, with over 62% stating that the vehicle type for the next main household purchase will be a SUV or Ute[11].



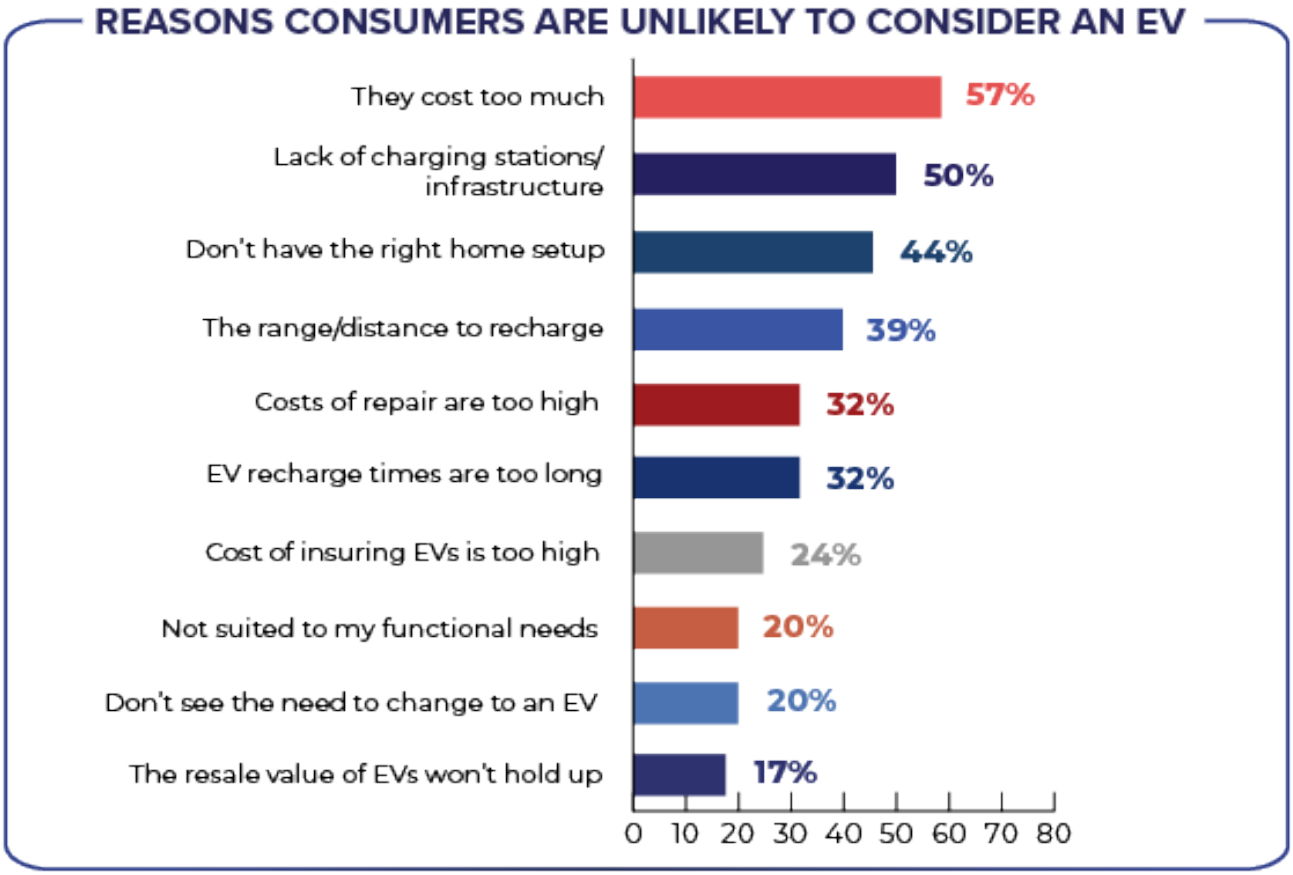
CONSUMER SENTIMENT TOWARDS EVS

As mentioned earlier, achieving Option B will be highly dependent on a rapid take up of EVs. While consumers are increasingly open to buying an EVs, this is increasing at a very slow rate up 4% from 2022. While there is a growing portion of the market that is open to purchasing an EV, consumer willingness does not always translate into action, considering consumer taste, buyers' financial capacity and availability of EVs.

In early 2024, the AADA undertook research to gather insights into beliefs and perspectives of EVs and hybrid vehicles among Australian vehicle drivers. The research is the second wave of the tracking stage of research, following a similar study conducted in December 2022. A key finding of this research shows that electric vehicle sentiment is shifting at a trickle rather than a flood. Conventional fuel types continue to dominate when drivers are considering what to purchase for their next main vehicle, but consideration of EVs has increased from 21% in 2022 to 25% in 2024, suggesting a slow and steady momentum towards EVs overall.

On the other hand, Australians are much more open to considering a hybrid for their next purchase, with almost 50% of respondents indicating that they are likely to consider buying a hybrid in the future. The key finding of the research was that the **price of EVs and the availability of a comprehensive, publicly accessible charging network are the two biggest considerations for an EV purchase**.

With the estimated charging infrastructure investment for the widespread adoption of EVs exceeding $1 billion for Dealers alone, it is important that the design of the NVES takes into account where Australia is in our EV infrastructure roll out journey and what impact this will have on consumers purchasing motivations.



ABILITY FOR THE FLEET TO MEET OPTION B TARGETS

If Option B as detailed in the discussion paper is implemented, there will be significant consequences for consumer choice and affordability.

The AADA considers that the headline CO2 target is one of the most important parameters when developing the NVES. While the AADA welcomes motivations to improve the fuel efficiency of our fleet, we consider this to be a target that is unachievable in the proposed timeframe for the Australian market without extensive and generous incentives and the inclusion of technology credits in its design.

With the proposed target to achieve more than 60% reduction in only 5 years, the biggest effects of this policy will be felt by consumers who intend on purchasing a larger SUV or Utes as their next vehicle purchase, and as demonstrated above this is a significant proportion of the market. These consumers are often purchasing these vehicles for their utility and there is often no significantly lower emission alternative, at a similar price point which can provide the same amenity as desired.

The AADA has obtained the data for all the new light vehicles currently for sale on the Australian market to ascertain how many are able to meet the targets for 2025 and in each year through to 2029. The AADA notes that these are vehicles currently on offer and that other product will be released over the next five years, however, this data does demonstrate the seismic changes that will be required to comply with Option B.

The data shows that under the passenger vehicle segment only a quarter will comply with the proposed standards when they commence in less than 12 months. The situation only gets more difficult over time and by 2029 just over 10 % of current models manage to achieve the 58g/km target for that year.

The situation is even more pressing for light commercial vehicles. While only 30% of vehicles currently on the market will achieve the 2025 target, the number of vehicles which fall under the standard collapses in the second year of the standard.

This just demonstrates the paradigm shift that would need to occur in the market in an incredibly short period of time for manufacturers to meet these figures.

The vehicles for sale in Australia today would need to drastically change to meet these targets. We understand that the point of a fuel efficiency standard is to change the types of vehicles being supplied, but doing this in such a short period of time is reckless and risks affordability and choice.

PASSENGER

SEGMENT	2025	2026	2027	2028	2029
Current Model variants/grades*	1757	1757	1757	1757	1757
PV CO2 Target	141	117	92	68	58
# variants/grades under	446	292	220	192	182
% variants/grades under	25.4%	16.6%	12.5%	10.9%	10.4%

COMMERCIAL

SEGMENT	2025	2026	2027	2028	2029
Current Model variants/grades*	400	400	400	400	400
PV CO2 Target	199	164	129	94	81
# variants/grades under	120	26	12	8	8
% variants/grades under	30.0%	6.5%	3.0%	2.0%	2.0%

*As at 12 February 2024

Price and CO2 Model Comparison

MAKE	MODEL	GRADE	FUEL TYPE	LIST PRICE	CO2	CO2 DIFFERENCE	RRP DIFFERENCE
Honda	ZR-V	Vti LX	Petrol	$48,500	168		
Honda	ZR-V	eHEV LX	Hybrid	$54,900	114	54	$6,400
Hyundai	Santa-Fe	Elite	Diesel	$60,000	160		
Hyundai	Santa-Fe	Elite	Hybrid	$63,000	137	23	$3,000
MG	HS	Excite	Petrol	$35,990	170		
MG	HS	Excite PHEV	PHEV	$49,690	39	131	$13,700
Mitsubishi	Outlander	ES (AWD)	Petrol	$40,240	177		
Mitsubishi	Outlander	ES PHEV (AWD)	PHEV	$57,290	35	142	$17,050
Nissan	X-Trail	Ti	Petrol	$50,490	183		
Nissan	X-Trail	Ti e-Power	Hybrid	$54,690	139	44	$4,200
Subaru	Crosstrek	2.0L	Petrol	$34,900	165		
Subaru	Crosstrek	2.0L Hybrid	Hybrid	$38,590	147	18	$3,690
Toyota	Yaris	SX	Petrol	$28,190	114		
Toyota	Yaris	SX Hybrid	Hybrid	$30,190	76	38	$2,000
Toyota	RAV4	GXL	Petrol	$43,310	137		
Toyota	RAV4	GXL Hybrid (AWD)	Hybrid	$45,810	107	30	$2,500

The above table shows comparisons in CO2 emissions and pricing within model ranges (e.g. comparing petrol grade to hybrid grade) for some popular Australian vehicle types available today.

It highlights the major problem with the headline targets proposed under Option B, that many **hybrid or lower emission alternatives of popular vehicles will still be unable to achieve the significant emission reductions required**.

Take for example the Toyota RAV4, one of the most popular and in demand vehicles available in Australia. The GXL petrol version emits 137g of CO2 per km, and its lower emission alternative the GXL hybrid emits 107g of CO2 per km. This lower emission hybrid comes at a price premium of $2,500 compared with its petrol counterpart. **However, by 2027 this vehicle will be unable to meet the emissions targets in its own right**.

The research noted above showed that consumers are much more open to adopting hybrid technology over EVs on the journey to lower emissions transport because of their low fuel consumption, reduced CO2 emissions and upfront cost. Hybrid technology also offers a more practical solution for people who tend to drive longer distances and do not have access to sufficient charging infrastructure. In the table above only two of the hybrids (both PHEVs) would meet the emission reduction targets under Option B in 2029, and they both come with a significant price differential.

If we are to make meaningful emission reductions in the transport sector, which the AADA acknowledges is needed, it is important to do it in a measured and sensible way to avoid unintended consequences. The adoption of lower emission but still practical alternatives to

popular Australian vehicles could do more to help us reach our targets as opposed to adopting Option B which is essentially an EV mandate as these will be the only vehicle type that will achieve the enormous emissions reductions over the required timeframe. If Australians don't continue to have access to the vehicles that provide the utility they desire for the right price point, they will just hold onto their current vehicles for longer, which is already at the longer end of vehicle ownership compared to other countries. With cost-of-living pressures increasing, it is the wrong time to be introducing a NVES that is too stringent. Consumers are unable to afford the lower or zero emissions alternatives available and will ultimately hold onto their older higher emitting vehicles for longer.

IMPACT ON REGIONS AND LOWER INCOME HOUSEHOLDS

The largest effect of adopting a NVES which is very stringent, in the short timeframe proposed will be felt in Australia's regional and rural areas and by those on lower incomes. We do not accept the characterisation that Option B will benefit regional motorists as outlined in the impact analysis, because as mentioned earlier we believe the modelling ignored key costs such as insurance, repair costs and depreciation which will exterminate the claimed savings.

Consumers in regional and rural areas often have less choice when deciding what vehicle type they purchase. Limited public charging infrastructure and limitations on the ability to install personal or business charging infrastructure due to the extensive electrical infrastructure upgrades required as they can often be supplied by Single Wire Earth Return Lines (SWER). People located in rural and regional areas often drive much longer distances than those in urban and metro areas and are therefore more reliant on a vehicle which can travel these significant distances.

Rural and regional Dealers will be expected to be able to support large scale EV servicing and repair volumes with the capital investment expected to range from $130,000 for a typical regional Dealer to $580,000 for a typical rural Dealer. Dealers are ready for this significant challenge however, this transformation of the way Australians use, service and repair vehicles will take time. As such, this could cause significant issues for regional and rural areas where the same NVES targets would apply through lack of available technology options to provide the utility needed, lack of charging infrastructure and lack of available servicing and repair facilities.

IMPACT ON THE USED CAR MARKET

The implementation of NVES in any form will have significant flow on impacts on the used car market. Even though the NVES will apply directly to new vehicles only, their impacts go beyond the new-car market. In particular, the change in new-car prices and model availability induced by the standards will affect used car prices.

Every year more than 2 million used vehicles are sold in Australia, double the number of new car sales. The top selling second hand cars often follow closely with the new car market. In 2023, the Ford Ranger to the charts as the best selling second hand vehicle with more than 65,000 units sold, followed closely by Australia's second best selling new car the Toyota HiLux. If consumers are unable to

access the vehicle models they want and need as a result of a NVES that is too stringent before available technology has come to market, consumers will ultimately turn to the used car market as a means to acquire these vehicles which will drive up the price of the second hand market.

This was seen during Covid, when new vehicle supply chains were under extreme pressure, resulting in long wait lists on popular models. This meant that consumers who would normally buy a new car, switched to near-new second hand cars, driving their prices higher which had a knock on effect through to entry level used car prices[12].

In a cost of living crisis, potential impacts on the whole vehicle market, particularly second hand car buyers must be considered when determining the appropriate level of headline emissions reductions required from new cars.

POINT OF COMPLIANCE

The AADA also has concerns with the point at which compliance with the NVES will be expected to be met. The consultation paper states "*a NVES would apply at the point at which a vehicle is entered onto the RAV which is a register of vehicles imported and manufactured in Australia, through the type approval pathway under paragraph 15(2)(a) of the RVSA*". The AADA sees this as a flaw in the regulatory process which could have a significant negative impact on Australia's new car dealers. Under the current franchise model most Australian manufacturers and dealers operate under, the manufacturer will import vehicles which are then wholesaled to Australian dealers to be sold to consumers. If the NVES is implemented as described above where the manufacturer can meet its compliance obligation by importing the mix of vehicles it determines to be appropriate to meet its obligations, Dealers could be on the receiving end of vehicles that are not suitable for their consumers and be unable to turnover stock.

OEMs enjoy superior bargaining power in comparison to their Dealers through the provision of one-sided, standard-form contracts, offered on a take it or leave it basis. Dealers make significant investments in their businesses, often resulting in a dependency on the ongoing right to run the franchise. With this dependency, the Dealer loses their bargaining power, and the more sunk investment the Dealer commits, the more vulnerable they are. They are vulnerable because OEMs have extensive powers to bring franchise agreements to an abrupt end using non-renewal and termination powers.

With the stated aim of the NVES being to encourage manufacturers to prioritise more fuel efficient vehicles for the Australian market, it is critical that this policy is implemented in a way that incentivises manufacturers to produce more fuel efficient versions of vehicles which Australian consumers prefer and not put Dealers at significant disadvantage of having to accept an unfavourable vehicle mix in order for the manufacturer to meet their CO2 target.

The AADA proposes that making the point of compliance at the point of sale will avoid the unintended consequences detailed above.

GREY IMPORTS

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 NVES, manufacturers and suppliers will need to ensure their vehicle fleet meets their headline targets 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 the NVES.

This would be counterproductive to the purpose of the implementation of NVES and diminish the effectiveness of the NVES 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.

COMPLIMENTARY MEASURES

In other markets where fuel efficiency standards have existed they have come with significant incentives for consumers to purchase not only EVs, but also new vehicles which are demonstrably cleaner, more efficient and safer than the older vehicles which are being retired.

Scrappage Scheme: Markets like the US and the EU have benefitted from significant investment in scrappage schemes. A scrappage program provides an incentive to encourage the retirement of old vehicles to be replaced with modern vehicles. These programs serve to remove inefficient, polluting vehicles from the road and are able to target an enormous source of automotive emissions which are not covered by the NVES. The age of Australia's vehicle fleet has been growing to 11 years for passenger cars and 11.3 for light commercial vehicles. A large proportion of these cars would be more than 15 years or 20 years old, with outdated emissions reduction technologies. For a seismic change to the industry as required by Option B, these kinds of solutions need to be considered.

Instant Asset Write Off: In recent years the Government has reduced or ended important investment incentives which were made available to businesses in the form of the instant asset write off and the temporary full expensing measure. Getting businesses on board with the zero emissions transition will be key to achieving the required targets. The Government should consider increasing Instant Asset Write Off up to the car limit and expand access to all businesses.

Exempt PHEVs from FBT beyond 2025: PHEVs are due to be excluded from the EV FBT exemptions in 2025. This is completely non-sensical given the crucial role they will play in the light commercial segments over the next 5 years. As a matter of urgency, the decision to exclude them from this concession should be reversed.

Provide EV incentives for low-to-middle income earners: Australia's Federal Governments have been unique in the industrialised world for its failure to

provide purchase incentives. Several state governments have provided subsidies, but these have often ended up being taken up by motorists living in inner-city wealthy areas. Furthermore, these are being gradually withdrawn by most states. The correlation between incentives and EV uptake is undeniable in other markets. The Government should consider putting in place a national purchase incentive which is targeted to those which are least able to afford the still significant price difference between EVs and ICE cars.

Abolish the Luxury Car Tax and Passenger Vehicle Tariff: In a time when the Government will be asking consumers to consider purchasing vehicles with a higher upfront cost, we can no longer be operating in an environment which maintains archaic taxes which were developed for a time when Australia still manufactured passenger cars. Both the luxury car tax and the passenger vehicle tariff have been largely discredited and they serve now only as a bargaining chip in trade negotiations. The Government should abolish both taxes as a matter of urgency and empower consumers to buy cleaner new cars.

INDUSTRY'S PREFERRED OPTION

In this section, the AADA details the preferred option for the industry to achieve the Government's headline target of 61% & 62% emission reduction for the passenger vehicle and light commercial vehicle categories respectively.

This preferred industry position offers alternative solutions across three key areas; categorisation of SUVs, flexibility, headline targets/timeframe and penalties which will ensure that Australia can seamlessly adopt a NVES which will maximise affordability and consumer choice and align Australia with key design features adopted in other jurisdictions when introducing a NVES.

CATEGORISATION OF SUVS

Another key factor in determining the design elements is the inclusion of SUVs in the LCV category, the AADA considers this to be critical to achieving the headline targets. As detailed above in markets similar to ours such as the US, large SUVs are included in the LCV category acknowledging that it will be more difficult to lower the emissions of these vehicle types and accounting for that through a slightly higher emissions cap for that category.

The next example demonstrates how achieving higher emission reduction is significantly easier for smaller vehicles while maintaining an acceptable price point where the market will seek to purchase these alternatives.

Example - Large SUV				
Hyundai	Santa Fe	Elite - Petrol	$56,500	244
Hyundai	Santa Fe	Elite - Hybrid	$63,000	137
Comparison with a small car				
Toyota	Yaris	SX - Petrol	$28,190	114
Toyota	Yaris	SX - Hybrid	$30,190	76

This example with the Santa-Fe and Yaris is very telling, in that it is the starting point that makes it difficult for the larger vehicle to achieve the desired emission reduction target. The starting point for the Santa-Fe is 244g/ km and the lower emission alternative the Santa-Fe hybrid is 137g/ km, the hybrid variant with a $6500 price premium achieves a 43.8% reduction in emissions. Compare that to the Yaris where the starting point is 114g/km which is already lower than the lower emission alternative of the SUV, the lower emission alternative of the Yaris achieves only a 33% reduction in emissions compared with the petrol version but would beat the headline target.

In this example, the larger SUV will achieve more significant reductions but would still be unable to meet the proposed headline targets under option B. It is unachievable to expect large SUVs to meet the same emission reduction targets as small cars.

The goal of the NVES should be to reduce light transport emission above and beyond what would be expected in a business as usual scenario, however, if larger SUV hybrids which achieve more than 40% emission reduction on their

petrol or diesel counterparts are still unable to meet the proposed headline target, this policy is a mandating of smaller vehicles or EVs as the only viable means to achieve this target other than accepting a significant penalty to their sale.

It is critical that SUVs particularly larger SUVs are recategorised in the LCV category.

FLEXIBILITY

The final key area which must be considered in the design elements of the NVES is the inclusion of technology credits.

The consultation paper details that under Option B, in order to maximise simplicity and transparency, the NVES will not include super credits, off cycle credits, or air conditioning credits. While the AADA agrees that this would simplify the enforcement of the NVES, simplicity should not come at the expense of ensuring affordability and choice for consumers. With a very stringent NVES, and much groundwork to be made in catching up to other jurisdictions, flexibility in the scheme is essential.

SUPERCREDITS

Many countries which have adopted a vehicle efficiency standard have included provisions which enable manufacturers to further reduce their reported average emissions through the use of multipliers or supercredits for certain advanced technology vehicles. The significant motivator in introducing a NVES 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 NVES, it's important that other flexibility mechanisms be designed into the FES framework, such as super credits. The inclusion of supercredits in the NVES 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 NVES and sees it as essential in encouraging and rewarding manufacturers who are supplying very low or zero emission vehicles onto the market beyond what is required under the NVES and will allow consumers earlier access to advanced low emission vehicles.

AIR CONDITIONING AND OFF CYCLE CREDITS

In other countries that have implemented an efficiency standard for light vehicles such as the US, manufacturers have been able to generate additional credits for technologies that cut emissions beyond the tailpipe, like measures to reduce air conditioning use and improve engine cooling. These are known as 'off cycle credits' because they address technologies which are not captured by standard emissions testing regimes.

An example of this is air-conditioning (A/C) credits, which are mechanisms to encourage the introduction of low Global Warming Potential (GWP) air conditioning gas or to improve the efficiency of the A/C system itself. This is in recognition of the importance of encouraging manufacturers to continue to implement low GWP refrigerants or low leak systems and the AADA would encourage the inclusion of

off cycle credits as a flexibility mechanism in the NVES, particularly in the early years of the scheme.

PENALTIES

The penalties being imposed in Option B are incredibly stringent by international standards given the lack of consumer incentives and flexibility mechanisms built into the proposal. Other markets like the US phased in penalties starting at a lower base and increasing over time. At the current level of $100, it is almost certain that there will be adverse consequences for vehicle affordability. For segments where there are not many EV options, harsh penalties could lead to product being withdrawn from the market.

INDUSTRY PROPOSED OPTION

The key features which differentiate the industry's preferred option from the Government's Option B is:

- SUVs and four-wheel drives moved into the LCV category.
- The extension of the timeframe for a revised LCV category to 7 years.
- Technology credits as per Option A.
- Commence the scheme with penalties of $20 per g/km increasing gradually over the target period.

YEAR	PV CO2 (g/KM)	LCV CO2 (g/KM)
2025	141	210
2026	137	199
2027	127	175
2028	115	160
2029	99	125
2030		94
2031		81

ELEMENT	AADA PROPOSAL
Headline Target	Remains the same, but the challenges around the LCV transition allow for 7 years.
Vehicle Categories	PV - class is passenger vehicles, light SUVs and two-wheel drive versions of four-wheel drive vehicles (MA and MB categories). LCVs - class is larger SUVs, four-wheel drives, and Utes and vans GVM up to 4.5 tonnes (MC, NA and NB1 vehicles, with some exceptions).
Technology Credits	Adopt generous supercredits for a wide range of emissions reduction technologies. Supercredits for: • Efficient vehicles (60% of limit curve for the vehicle mass level and/or hybrid) (1.5). • Plug-in hybrids (2) (defined as vehicles with CO2 emissions of 1-50g CO2/km). • Zero emission vehicles (3). Off-cycle credits available and all technologies on European and United States technology menu eligible. Credit available for off-cycle credits capped at 10g CO2/km. Air-conditioning credits available and included in off-cycle credit cap. All technology credits to be phased out from 2029.
Penalties	Penalties commence at $20 per g/KM increasing gradually over the target period.

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
[redacted]

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Organisation questionnaire response

Privacy Setting: I agree for my response to be published with my name and position.

What organisation do you represent? (required)	Australian Automotive Dealer Association
What is your name? (required)	James Voortman
What is your position at the organisation? (required)	CEO
Please rank the proposed options in order of preference. (optional)	Option A - 0th, Option B - 0th, Option C - 0th
Briefly, what are your reasons for your choice? (optional, 3000 character limit)	NULL
Do you support the Government's preferred option (Option B)? (optional)	NULL
Do you have any feedback on the analysis approach and key assumptions used? (optional, 3000 character limit)	NULL
Briefly, describe how the NVES might impact your organisation (optional, 3000 character limit)	NULL
Who should the regulated entity be? (optional, 3000 character limit)	NULL