

SMMT final response to Australia’s New Vehicle Efficiency Standard (NVES) (Exempt Vehicles) Determination 2024 consultation September 2024

About us

1. The Society of Motor Manufacturers and Traders (SMMT) is one of the largest and most influential trade associations, representing the automotive industry in the UK.
2. The automotive industry is a vital part of the UK economy, integral to growth, the delivery of net zero and the UK as a global trade hub. It contributes £93 billion turnover and £22 billion value added to the UK economy, and invests around £4 billion each year in R&D, with 198,000 people employed directly in manufacturing and some 813,000 across the wider automotive industry. Many of these automotive manufacturing jobs are outside London and the South-East, with wages that are around 13% higher than the UK average. The sector accounts for 12% of total UK exports of goods with more than 140 countries importing UK produced vehicles, generating £115 billion of trade in total automotive imports and exports.
3. The UK is home to a diverse and vibrant automotive industry and is a leading location across the world for low volume, premium and specialist manufacturers.
4. The UK automotive sector manufactures almost every type of vehicle, from cars, to vans, taxis, trucks, buses and coaches, as well as specialist and off-highway vehicles, supported by more than 2,500 component providers and some of the world’s most skilled engineers. In addition, the sector has vibrant aftermarket and remanufacturing industries. The automotive industry also supports jobs in other key sectors – including advertising, chemicals, finance, logistics and steel.

Summary

5. Following the Australian Government’s introduction of the New Vehicle Efficiency Standard (NVES) Act 2024 to help deliver its ambitions on carbon emission reduction, SMMT welcomes the recognition of the need for certain exemptions and the resulting publication of the Exemptions Principles and the consultation.
6. In its current form, the NVES will impact UK Small Volume Manufacturers’ (SVMs) ability to sell cars into Australia.
7. SMMT would like to urgently highlight the need for modest, temporary provisions for such manufacturers in line with similar provisions, including derogations and exemptions, found in other leading markets which have all taken into account the additional challenges faced by SVMs in their journey to decarbonisation.
8. We believe such provisions could be offered within the parameters of the Exemption Principles.

Introduction

9. Australia represents a major trading partner for the UK Automotive sector. Last year, Australia was the seventh largest export market for UK-built passenger cars, receiving 2.7% of all UK car exports. Out of the 18,391 units shipped from the UK to Australia in 2023, only 839 were produced by Small Volume Manufacturers (SVMs).
10. The SMMT and its members welcomed the conclusion of the UK-Australia Free Trade Agreement, of which we recently celebrated the first anniversary of its entry into force. The announcement of the first full and all new post-Brexit trade deal provides the UK automotive sector with tariff-free access to Australia, one of the main global growth markets. It also creates an opportunity to diversify supply chains to build the batteries essential for our transition to zero-emission motoring.
11. Despite the conclusion of an FTA, Britain’s automotive manufacturers continue to face challenges in trading with this growing market. In particular, Australia’s tax policies are more punitive towards foreign-made premium cars, a segment in which the UK – with its array of famous brands – is one of the world leaders.
12. We welcome Australia’s aspiration to develop domestic emission standards taking into account regulations in other markets such as the US and using them as a relevant model. However, it is our hope that harmonisation efforts will not be focused exclusively on obligations and that provisions for

SVMs adopted in other jurisdictions, including the UK, the EU, the US, China and New Zealand, will also be given due consideration, in line with the spirit and the letter of international trade obligations and of the UK-Australia FTA.

13. When developing such provisions, it is crucial that regulators take into account the specificities of this automotive market segment to avoid creating unnecessary, overburdensome and over restrictive barriers to trade.

Small Volume Manufacturer position

14. SVMs are committed to decarbonising their products, in terms of in-use, tailpipe emissions and emissions arising from their operations and supply chain.
15. While the NVES proposes recognising specific vehicle types, it assumes that all manufacturers can decarbonise at the same pace. SVMs do not have access to the same level of resource or funding as the larger volume manufacturers and as such product development and life cycles tend to be much longer.
16. SVMs also have a much smaller product portfolio so where a large vehicle manufacturer can progressively electrify parts of its portfolio, still allowing provision of a full product offering to all consumers during this transition period, SVMs are likely to have a more rapid switch to electrification but only once hybrid or EV technology is sufficiently developed to meet their specific customer demands and expectations. SVM manufacturers often have very different vehicle use cases. Electrification technology which is prevalent in mass market applications is not suitable for high performance or other specialist vehicles. Technology for use in these applications is still in its infancy and will need a longer timeframe to be fully developed and commercialised.
17. Regulatory frameworks across the world have recognised the specific challenges that SVMs face when complying with new regulations and have incorporated provisions for these types of manufacturers, taking into account the real-world safety and environmental impacts of these vehicles which are supplied in limited volumes and in most cases, cover significantly less kilometres than those supplied by larger manufacturers. SVM provisions have therefore been included in a variety of safety and environmental regulations in virtually all regions. Annex 1 provides some examples of both the thresholds used to define an SVM in such frameworks and the provisions that have been put in place for them, specifically in terms of environmental legislation.
18. The administrative cost burden that NVES could place on SVMs must also be taken into account if implemented in its current state. Furthermore, any financial penalties incurred through compliance failures, for these smaller manufacturers, are likely to result in a reduction in the ability to invest in decarbonisation technologies and programmes, with the unintended consequence that the progress towards decarbonisation will be actually slowed.
19. As seen in other markets, provisions such as derogations and exemptions can provide SVMs the time needed to comply with regulatory standards, by spreading the cost and resource needed to achieve compliance over a more proportionate period of time.
20. SMMT therefore strongly recommends the inclusion of provisions for SVMs as well as for some specific vehicle types already being considered, within the NVES.
21. SMMT requests a derogation for vehicle manufacturers, who are either not part of a connected group of entities or who are part of a group but operate their own production facilities and design centres, with registrations in Australia of fewer than 500 vehicles per annum. The total vehicle registrations in Australia in 2023 was 1,216,780 so this represents manufacturers with a market share of less than half a percent each or in total 0.07% market share for all of the UK manufacturers who would fall within scope of such a derogation.
22. SMMT requests such a derogation remains in place until 2035 or until the year after an SVM exceeds the proposed threshold above.
23. The derogation could either take the form of a full exemption as is seen in some markets (e.g. EU and UK) for ultra-small or micro volume manufacturers, or as is seen in some other markets, could operate as a bilateral agreement reached with each SVM on an individual CO₂ reduction trajectory over a period of, for example, 5 years (e.g. EU, US).

24. SMMT believes that such provisions fall within the parameters of the Specific Exemption Policy Considerations; namely to:
- Minimise the number of vehicles affected (less than 0.5% of vehicle registrations each year)
 - Minimise the time-length of any exemption (the international automotive market is strongly heading towards zero tailpipe emission cars during the 2030s)
 - Be competitively neutral – the derogation would not apply to specific manufacturers, but only those below a certain, annual threshold.
 - Relate to vehicles for which there are no close substitutes in the current market – these vehicles tend to be premium or specialised products for which the current, mainstream zero emission technology does not deliver the same consumer expectations as those delivered by conventional powertrain solutions.
 - Be established and applied in as simple a way as possible – clear definition that can be used to identify manufacturers within scope of the provisions.
 - Minimise the administrative burden on regulated entities – simple application for the provisions to be applied at the start of a compliance period.
25. SMMT and its members look forward to further engaging with the Australian government to further discuss the details of this proposal.

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Annex 1: Definitions of Small Volume, Ultra Volume or Micro Volume Manufacturers in other regional regulatory frameworks in the context of provisions regarding environmental regulation.

1. EU (10,500,000 vehicle registrations in 2023)
Regulation (EU) 2019/631 of the European Parliament and of the Council of 17 April 2019 setting CO₂ emission performance standards for new passenger cars and new light commercial vehicles:

Article 2 – Scope

Paragraph 4:

“...shall not apply to a manufacturer which, together with all of its connected undertakings, is responsible for fewer than **1 000** new passenger cars or for fewer than 1 000 new light commercial vehicles registered in the Union in the previous calendar year, unless that manufacturer applies for and is granted a derogation in accordance with Article 10.”

Article 10: Derogations for certain manufacturers

1. An application for a derogation from the specific emissions target calculated in accordance with Annex I may be made by a manufacturer of fewer than **10 000 new passenger cars** or **22 000 new light commercial vehicles** registered in the Union per calendar year, and which:

- (a) is not part of a group of connected manufacturers; or
- (b) is part of a group of connected manufacturers that is responsible in total for fewer than 10 000 new passenger cars or 22 000 new light commercial vehicles registered in the Union per calendar year; or
- (c) is part of a group of connected manufacturers but operates its own production facilities and design centre.

2. UK (2,500,000 vehicle registrations in 2023)
UK Statutory Instrument 2023 No. 1394 CLIMATE CHANGE ROAD TRAFFIC - The Vehicle Emissions Trading Schemes Order 2023

Schedule 4

Low-volume Car Registration Trading Scheme (CRTS) participants and low-volume Van Registration Trading Scheme (VRTS) participants

1. A CRTS participant may be treated as a low-volume CRTS participant, and a VRTS participant may be treated as a low-volume VRTS participant, in accordance with Part 2 or 3 of this Schedule if:

- (a) the participant is not part of a group of connected manufacturers;
- (b) the participant is a pool CRTS participant or a pool VRTS participant, as the case may be; or
- (c) the participant is part of a group of connected manufacturers, but it operates its own production facility and design centre, within the meaning of paragraph 2.

2. For the purposes of paragraph 1(c):

- (a) a participant operates its own production facility if it has exclusive use of the manufacturing or assembly plant at which the cars or the vans of which it is the manufacturer are manufactured or assembled; and
- (b) a participant operates its own design centre if it controls and has exclusive use of the facility at which the cars or the vans of which it is the manufacturer are designed and developed.

Participants with fewer than **1,000 car or van registrations** during a scheme year

3. A CRTS participant which is the manufacturer of fewer than 1,000 cars which are registered during a scheme year is a low-volume CRTS participant for that scheme year.

4. A VRTS participant which is the manufacturer of fewer than 1,000 vans which are registered during a scheme year is a low-volume VRTS participant for that scheme year.

Participants with **1,000 to 2,499 car or van registrations** during a scheme year

5. A CRTS participant which is the manufacturer of fewer than 2,500 cars, but more than 999 cars, which are registered during a scheme year may apply to be a low-volume CRTS participant for that scheme year in accordance with this Part.

6. A VRTS participant which is the manufacturer of fewer than 2,500 vans, but more than 999 vans, which are registered during a scheme year may apply to be a low-volume VRTS participant for that scheme year in accordance with this Part.

3. New Zealand (149,260 vehicle registrations in 2023)
Land Transport Rule Vehicle Standards Compliance 2002

Part 2 - Definitions

Low volume vehicle means a make and model of a vehicle, of a class specified in Table A: Vehicle classes, other than Class MD3, MD4, ME, NB, NC, TC or TD, that is:

- (a) manufactured, assembled or scratch-built in quantities of **500** or less in any one year, and where the construction of the vehicle may directly or indirectly affect compliance of the vehicle with any of the vehicle standards prescribed by New Zealand law; or
- (b) modified uniquely, or in quantities of **500** or less in any one year, in such a way that compliance of the vehicle, its structure, systems, components or equipment with a legal requirement relating to safety performance applicable at the time of the modification may be affected.

4. United States of America (15,500,000 vehicle registrations in 2023)

Environmental Protection Agency §86.1818-12 Greenhouse Gas Emission standards for light-duty vehicles, light-duty trucks and medium-duty passenger vehicles:

(g) **Alternative fleet average standards for manufacturers with limited sales.** Manufacturers meeting the criteria in this Paragraph (g) may request alternative fleet average CO2 standards for model year 2031 and earlier vehicles.

(1) Eligibility for alternative standards. Eligibility as determined in this Paragraph (g) shall be based on the total nationwide sales of combined passenger automobiles and light trucks. The terms "sales" and "sold" as used in this Paragraph (g) shall mean vehicles produced for sale in the states and territories of the United States. For the purpose of determining eligibility the sales of related companies shall be aggregated according to the provisions of §86.1838-01(b)(3), or, if a manufacturer has been granted operational independence status under §86.1838-01(d), eligibility shall be based on that manufacturer's vehicle sales. To be eligible for alternative standards established under this Paragraph (g), the manufacturer's **average sales for the three most recent consecutive model years must remain below 5,000**. If a manufacturer's average sales for the three most recent consecutive model years exceeds 4,999, the manufacturer will no longer be eligible for exemption and must meet applicable emission standards starting with the model year according to the provisions in this Paragraph (g)(1).

Environmental Protection Agency (EPA) – Air Programs – Control of Emissions from New and In-Use Highway Vehicles

EPA allow for alternative GHG standard for SVMs with less than 5,000 annual US sales.

(1) Small-volume manufacturers.

(i) Optional small-volume manufacturer certification procedures apply for vehicles produced by manufacturers with the following number of combined sales of vehicles subject to standards under this subpart in all states and territories of the United States in the model year for which certification is sought, including all vehicles and engines imported under the provisions of 40 CFR 85.1505 and 85.1509:

(A) At or below **5,000** units for the Tier 3 standards described in §§ 86.1811-17, 86.1813-17, and 86.1816-18 and the Tier 4 standards described in § 86.1811-27. This volume threshold applies for phasing in the Tier 3 and Tier 4 standards and for determining the corresponding deterioration factors.

(B) No small-volume sales threshold applies for the heavy-duty greenhouse gas standards; alternative small-volume criteria apply as described in § 86.1819-14(k)(5).

(C) At or below 15,000 units for all other requirements. See § 86.1845 for separate provisions that apply for in-use testing.

(ii) If a manufacturer's aggregated sales in the United States, as determined in paragraph (b)(3) of this section are fewer than the number of units specified in paragraph (b)(1)(i) of this section, the manufacturer (or each manufacturer in the case of manufacturers in an aggregated relationship) may certify under the provisions of paragraph (c) of this section.

(iii) A manufacturer that qualifies as a small business under the Small Business Administration regulations in 13 CFR part 121 is eligible for all the provisions that apply for small-volume manufacturers under this subpart. See § 86.1801-12(j) to determine whether companies qualify as small businesses.

(iv) The sales volumes specified in this section are based on actual sales, unless otherwise specified.

(v) Except for delayed implementation of new emission standards, an eligible manufacturer must transition out of the special provisions that apply for small-volume manufacturers as described in § 86.1801-12(k)(2)(i) through (iii) if sales volumes increase above the applicable threshold

5. Mexico (1,361,433 vehicle registrations in 2023)
Fuel Economy and CO2 emissions standards

1. Objective and field of application

This Mexican Official Standard establishes the parameters and methodology for calculating the corporate target and observed averages of carbon dioxide emissions expressed in grams of carbon dioxide per kilometer (g CO₂ /km).

This Mexican Official Standard is applicable to new motor vehicles, with a gross vehicle weight between 400 and 3,857 kilograms, that use gasoline, diesel or alternative fuels as fuel, or if they are hybrid, plug-in hybrid, electric, extended-range or fuel cell vehicles, whose model year is prior to 2028 and that are marketed within the national territory. It is mandatory for Corporations that market new motor vehicles, except when the Corporation markets a total of between 1 and up to **500** units in total per model year.

5. Alternative Goals Program

Corporations that for the 2012 model year have recorded **total annual sales of between 501 and 2,500 units** will be eligible to join the Alternative Targets Program provided for in this section. The program will allow them to subject up to a maximum of 5,000 vehicles during the 2017 and 2018 model years to compliance with less stringent CO₂ emission targets, equivalent to a 25% reduction, depending on their model year, vehicle classification and Shadow. Any excess sales will be subject to the same targets that apply to any other corporation that does not qualify to use this flexibility mechanism.

5.1. Criteria for incorporation and use of the program:

- a) The program applies to vehicles of model years 2017 and 2018.
- b) Only corporations with total annual sales of 501 to 2,500 units for the 2012 Model Year are eligible for the program. If a corporation owns multiple vehicle brands, the aggregate sales must be considered in evaluating eligibility. Corporations with no sales recorded for the 2012 Model Year are not eligible.
- c) Corporations with sales greater than 501 but less than 2,500 units in the 2012 model year will maintain their eligibility for the program even if in subsequent model years their sales grow above this amount.
- d) If a Corporation exceeds the maximum limit of 5,000 units to be credited for the 2017-2018 period, it will determine which vehicles from its sales will be part of the Alternative Goals Program .
- e) In the event that the Corporation obtains Credits from those units that do not apply to the alternative goals program, these may be transferred and used only to comply with the aforementioned program; however, the Credits generated under the program cannot be transferred outside of the program or to other Corporations.
- f) The Credits generated in this program will expire when they are not used to comply with the specifications established in this Mexican Official Standard for vehicles of the 2017 and 2018 model years.