



Department of Infrastructure,
Transport, Regional Development,
Communications and the Arts

The Fuel Efficiency Standard –
Cleaner, Cheaper to Run Cars for
Australia

submission

May 2023





Department of Infrastructure, Transport, Regional Development, Communications and the Arts – Fuel Efficiency Standard

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The Carbon Market Institute (**CMI**) welcomes this opportunity to provide feedback to the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (**the Department**) on the Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia consultation (**FES Consultation Paper**), which opened for feedback on 19 April 2023.

CMI is an independent member-based institute that promotes the use of market-based solutions and supports best practice in decarbonisation to limit warming to 1.5°C. CMI's membership includes more than 150 organisations from across the entire carbon value chain. Members include primary producers, carbon service providers, legal and financial institutions, technology firms and emissions intensive companies.

CMI's Board updates the CMI Advocacy Policy Positions in consultation with, but independent of, members. Our positions include supporting policies aligned with Australia's fair share of effort to achieve the high-ambition Paris Agreement goal to limit warming to 1.5°C, evolving Australia's carbon markets to guide investment and opportunities in the transition, and ensuring rigorous governance, integrity and disclosure on carbon crediting.¹ CMI also administers the Australian Carbon Industry Code of Conduct.² The Code was established in 2018 to promote and steward consumer protection and market integrity.

The positions put forward in this submission are CMI's view, independent of members, and do not represent any CMI individual, member company or industry sector.

Strategic outlook

CMI welcomes the Albanese Government's release of Australia's first overarching National Electric Vehicle Strategy (**EV Strategy**)³ as a key element in the national climate policy suite. With transport set to be Australia's largest source of emissions by the end of the decade, policy intervention is required to transition the sector and ensure Australia realises its 2030 emissions reduction target and longer-term commitments under the Paris Agreement.⁴

¹ Carbon Market Institute (CMI) 2021, 'Advocacy Policy Position Statement 2021', <https://carbonmarketinstitute.org/app/uploads/2021/12/CMI-Advocacy-Policy-PositionsUpdated-Dec-2021-004.pdf>.

² More information can be found on the Code website: <https://carbonmarketinstitute.org/code/>.

³ Australian Government 2023, 'National Electric Vehicle Strategy', <https://www.dcccew.gov.au/sites/default/files/documents/national-electric-vehicle-strategy.pdf>.

⁴ Australian Government 2023, 'National Electric Vehicle Strategy', <https://www.dcccew.gov.au/sites/default/files/documents/national-electric-vehicle-strategy.pdf>, p. iv.



CMI strongly supports the development and introduction of a fuel efficiency standard (**FES**) for light vehicles in Australia as an efficient, market-based approach to reducing vehicle emissions, as demonstrated by international experience in the EU, US and New Zealand.

CMI encourages a coordinated and holistic national approach to sectoral decarbonisation. In the context of transport sector policy, international best practice demonstrates that coordinated national policy and regulatory frameworks best serve to accelerate the sector's transition, in turn realising the associated environmental, economic, and social benefits that vehicle electrification can deliver.⁵

Whilst we recognise the complementary actions articulated in the EV Strategy, we urge the Government to provide a more holistic approach to transport decarbonisation.⁶ This would include articulating a sectoral carbon budget and additional sectoral transition policies to address other vehicle segments.

CMI welcomes the Government's commitment to develop a detailed net zero plan (**Net Zero Plan**) as recommended by the Climate Change Authority (**CCA**).⁷ The Net Zero Plan is an opportunity to articulate a more holistic economy-wide decarbonisation framework, clarifying sectoral ambition and transition pathways. We look forward to engaging with the CCA's current consultation on the 2035 Nationally Determined Contribution (**NDC**) and other matters to support these important considerations.⁸

CMI Recommendations

With a view to developing a more holistic approach to decarbonising Australia's transport sector, CMI recommends the Government consider the following:

1. Australia's initial CO₂/km FES target and its downwards trajectory should be sufficiently ambitious to catch up to major global markets (EU, US) by or before 2030.

CMI recommends that the Government introduce a strong CO₂/km FES target in year one and apply an ambitious decline rate to this, so that Australia catches up to the EU and US by or before 2030.⁹ This will best incentivise the supply of latest technology models to the Australian market, ensuring Australia does not fall further behind. CMI suggests the Government draw upon the starting emissions level and approach of New Zealand's FES, which only commenced in 2023 and has a similar imperative to catch up to major markets.¹⁰

⁵ For example, see Norway's EV Policy, which is housed within a comprehensive package of incentives that promote zero-emissions vehicles – see: Norsk ebilforening 2023, 'Norwegian EV Policy', <https://elbil.no/english/norwegian-ev-policy/>.

The UK Government's 'Road to Zero Strategy' is also housed within its Industrial Strategy and includes the ambition to see at least half of new cars to be ultra low emission by 2030 – see: UK Department of Transport 2018, 'Road to Zero Strategy', https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/739460/road-to-zero.pdf.

⁶ Complementary actions include: EV subsidies, targets for decarbonising Commonwealth vehicle fleets, and complementary actions to bolster Australia's charging infrastructure and increase local EV manufacturing and battery recycling; see – Australian Government 2023, 'National Electric Vehicle Strategy', <https://www.dcccew.gov.au/sites/default/files/documents/national-electric-vehicle-strategy.pdf>.

⁷ The Hon. Chris Bowen MP, Minister for Climate Change and Energy, noted his Government's commitment to this in his inaugural Annual Climate Change Statement to Parliament – see: Minister for Climate Change and Energy 2022, 'Annual Climate Change Statement 2022', <https://www.dcccew.gov.au/sites/default/files/documents/annual-climate-change-statement-2022.pdf>, p. 29.

⁸ Climate Change Authority (CCA) 2023, 'Setting, tracking and achieving Australia's emissions reduction targets' (consultation), <https://consult.climatechangeauthority.gov.au/australias-emissions-reduction-targets>.

⁹ As recommended by the EV Council – see: Electric Vehicle Council 2023, 'Recommendations for an Australian New Vehicle Efficiency Standard', <https://electricvehiclecouncil.com.au/wp-content/uploads/2023/05/Public-recommendations-for-a-New-Vehicle-Efficiency-Standard.pdf>.

¹⁰ Department of Infrastructure, Transport, Regional Development, Communications and the Arts (DITRDCA) 2023, 'The Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia' (consultation),



If suppliers require a slower start to provide sufficient lead time to ready their vehicle supply pipeline for the Australian market, CMI stresses that the starting target should be introduced in 2024 and be significantly more stringent than the current voluntary CO₂ Emissions Standard.¹¹ Any slow start and relatively shallower decline rate should be limited (for example, the first 2 years only) and be followed by a steeper decline rate to make up for lost ground. If FES credit banking is permitted, it should also be approached with caution.

2. Develop complementary policies for the heavy vehicle segment, such as a heavy vehicle FES and/or freight fleet transition incentives.

CMI appreciates that light vehicles are a priority for Australia's FES, given they contribute 60 percent of transport emissions and about 11 percent of Australia's total emissions.¹² Nevertheless, consideration should be given to other vehicle segments, including heavy vehicles.

Buses and trucks are the second-largest contributor to transport emissions after light vehicles.¹³ Moreover, while the Safeguard Mechanism applies to 65 percent of direct emissions from rail freight and also captures air freight, it only covers 2 percent of road transport freight emissions.¹⁴

Alongside existing support for hydrogen heavy vehicles, a heavy vehicle FES—as suggested by the Grattan Institute—would introduce targets for low and zero emissions buses and trucks.¹⁵ This would create a decarbonisation lever for trucks and buses, helping prevent rail freight activities and their associated emissions from 'leaking' into road transport to avoid coverage under the Safeguard Mechanism.¹⁶

Noting that road freight transition still entails a significant cost gap with substantial facility upgrades, CMI would also recommend consideration of additional fleet transition incentives, including:

- Direct financial incentives that address the large cost gap in the near term;
- Targeted support for charging infrastructure and pick-up and drop-off locations;
- Dedicated charging hubs for freight vehicles to ensure reliable access;
- Low emission zones in which high-emitting vehicles are subject to access fees; and
- Explicit/priority parking areas for zero emission vehicles ('green loading zones').

<https://www.infrastructure.gov.au/sites/default/files/documents/fuel-efficiency-standard-cleaner-cheaper-run-cars-australia-consultation-paper-april2023.pdf>, p. 38

¹¹ Federal Chamber of Automotive Industries 2020, 'Federal Chamber of Automotive Industries announces voluntary CO₂ Emissions Standard' (media release), <https://www.fcai.com.au/news/index/view/news/652>.

¹² DCCEEW 2023, 'Reducing transport emissions', <https://www.dcceew.gov.au/energy/transport>; Climate Change Authority (CCA) 2021, 'Transport' (fact sheet), <https://www.climatechangeauthority.gov.au/sites/default/files/2021-03/2021Fact%20sheet%20-%20Transport.pdf>.

¹³ With the average age of heavy vehicles sitting at 13 years compared to just over 10 years for cars, earlier action to encourage the uptake of LZEV trucks and buses will be impactful – see: Australian Bureau of Statistics (ABS) 2021, 'Motor Vehicle Census, Australia', See further <https://www.abs.gov.au/statistics/industry/tourism-and-transport/motor-vehicle-census-australia/latest-release#average-age>; CCA 2021, 'Transport' (fact sheet), <https://www.climatechangeauthority.gov.au/sites/default/files/2021-03/2021Fact%20sheet%20-%20Transport.pdf>.

¹⁴ Freight on Rail Group (FORG) 2022, 'Submission in response to the Safeguard Mechanism Consultation Paper' (submission), p. 1 (available at: <https://consult.dcceew.gov.au/safeguard-mechanism-reform-consultation-paper/submission/list>).

¹⁵ CMI notes the Government's existing Hydrogen Highways state and territory co-investment program as an existing driver of heavy vehicle decarbonisation DCCEEW 2022, 'Budget 2022-23: Reducing emissions and addressing climate change', <https://www.dcceew.gov.au/sites/default/files/documents/oct-budget-2022-23-climate-change-fs.pdf>, p. 2.

¹⁶ FORG 2022, 'Submission in response to the Safeguard Mechanism Consultation Paper' (submission), p. 2 (available at: <https://consult.dcceew.gov.au/safeguard-mechanism-reform-consultation-paper/submission/list>).



3. Consider the application of the FES to imported second-hand cars to potentially increase supply and affordability, and further reduce emissions.

A focus on new vehicles may predominantly benefit wealthier Australians at the outset. However, applying a complementary FES to imported second-hand cars could provide downstream benefits to Australians accessing the used car market.¹⁷ This would deliver a more equitable policy outcome.¹⁸ An example of this in practice is New Zealand's FES, which applies a parallel but less stringent CO₂/km standard to imported second-hand vehicles.¹⁹

4. Consider dependencies with adjacent sectors to maximise decarbonisation synergies—particularly between transport and electricity.

Given the decarbonisation interdependency between the transport and electricity sectors, the Government should consider whether additional investment frameworks are needed to support its renewable energy targets. This may include extending the Renewable Energy Target (RET) beyond 2030 and/or extending the Safeguard Mechanism to the energy sector.²⁰

5. Pursue a long-term, systemic approach to policy planning—including by exercising caution in promoting the FES from a fuel savings perspective to avoid encouraging more Australians to drive.

Alongside incentives for the uptake of technology that reduces emissions, such as low and zero emissions vehicles (LZEVs), CMI highlights that avoidance-based behavioural change is another powerful tool for reducing emissions.

The FES Consultation Paper and EV Strategy highlight the cost savings that a FES will create by reducing fuel costs for Australians who drive LZEVs, plug-in hybrids and fuel-efficient internal combustion engine vehicles (ICEVs). However, the Government should be careful not to encourage Australians without cars to purchase a vehicle, as this may exacerbate other policy problems in the medium-to-long-term, such as traffic congestion.

Synergistic strategies that reduce congestion and vehicle emissions will require collaboration between Commonwealth, state, territory, and local governments, and include:

- Investing in public transport infrastructure;
- Congestion levies that disincentivise private vehicles for entering city centres;²¹

¹⁷ Again see 2023, 'Does the National Electric Vehicle Strategy go the distance?' (podcast), <https://grattan.edu.au/news/does-the-national-electric-vehicle-strategy-go-the-distance/>.

¹⁸ 'Equitable' is listed as a guiding design principle for the policy in the FES Consultation Paper – see: DITRDCA 2023, 'The Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia', <https://www.infrastructure.gov.au/sites/default/files/documents/fuel-efficiency-standard-cleaner-cheaper-run-cars-australia-consultation-paper-april2023.pdf>, p. 12.

¹⁹ New Zealand Ministry of Transport 2020, 'Ngā Waka Mā: Clean Cars', <https://www.transport.govt.nz/area-of-interest/environment-and-climate-change/clean-cars/>.

²⁰ See CMI's comments on the potential extension of the RET to the electricity sector here: CMI 2022, 'DCCEEWS Safeguard Mechanism Reform – First Consultation' (submission), https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL_Safeguard-Mechanism-Reform-Submission-1.pdf, p. 9.

Moreover, future demands on the electricity grid are not limited to LZEVs—by one recent estimate, Australia will need 812GW of installed solar and wind capacity by 2050 to achieve net zero and grow the green hydrogen export market – see: Bloomberg NEF 2023, 'Report shows pathway and cost for Australia to meet climate goals and become major hydrogen exporter', <https://about.bnef.com/blog/report-shows-pathway-and-cost-for-australia-to-meet-climate-goals-and-become-major-hydrogen-exporter/>.

²¹ In Victoria, a congestion levy already applies to car parks in certain areas around Melbourne's CBD, while the Grattan Institute has recommended a congestion tax be levied by states and territories on vehicles driving in and out of CBD boundaries. See: State



- Public awareness campaigns that promote the health benefits of walking, cycling and transport alternatives to driving, where appropriate;
- Encouraging those who rely on driving to purchase smaller vehicles;²² and
- Targeted incentives for the people-mover equivalent segment, including taxis and ridesharing.

6. Lead the development of a nationally harmonised approach to fuel and transport pricing reform that accelerates the uptake of LZEVS in the short-term, whilst laying the groundwork for a distance-based road user pricing framework in the long-term.

The Commonwealth-administered fuel excise is a significant source of consolidated revenue—revenue that will still be needed to support road and infrastructure maintenance, even as the fuel excise is “eroded” as LZEVS uptake grows in the medium-to-long-term.²³ To address this, Australian governments at all levels should cooperate to develop a nationally harmonised distance-based road user pricing framework for all vehicles.²⁴

Accordingly, CMI recommends that the nationally coordinated approach to distance-based road user pricing is applied to ICEVs first to test its parameters, whilst supporting the continued development of Australia’s EV market. In the medium term (5-10 years and as EVs reach price parity with ICEVs), EVs should then be transitioned into the road user pricing framework.

In the absence of a collaborative longer-term approach between jurisdictions, state-level LZEVS road use taxes such as Victoria’s could proliferate.²⁵ In Australia’s nascent LZEVS market, the premature emergence of these taxes on an ad-hoc and uncoordinated basis could stunt LZEVS uptake and development of this emerging industry, causing Australia to fall further behind.

Should you wish to discuss CMI’s submission in further detail, please contact Gabriella Warden (Manager, Research and Government Relations) at gabriella.warden@carbonmarketinstitute.org.

Yours sincerely

Kurt Winter

Director, Corporate Transition

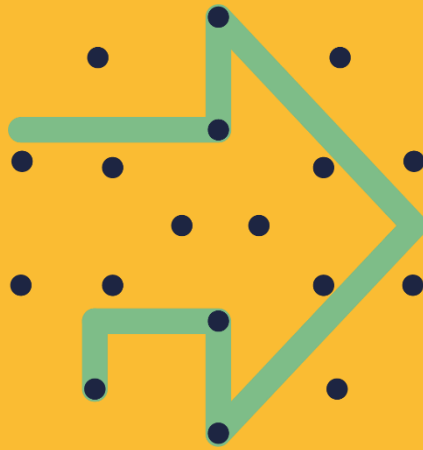
Revenue Office of Victoria, ‘Car Parks’, <https://www.sro.vic.gov.au/car-parks>; Grattan Institute 2022, ‘The Grattan car plan: Practical policies for cleaner transport and better cities’, <https://grattan.edu.au/wp-content/uploads/2021/10/Grattan-Car-Plan.pdf>.

²² In deciding whether the FES CO₂/km standard should be enforced as a mass-based limit curve or by vehicle footprint, the Department should consider the lighter impact of smaller vehicles and look to discourage the growing trend of SUVs and larger vehicles for those who do not need them, without penalising regional Australians, larger families and others that may rely on these vehicles. See: DITRDCA 2023, ‘The Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia’ (consultation), <https://www.infrastructure.gov.au/sites/default/files/documents/fuel-efficiency-standard-cleaner-cheaper-run-cars-australia-consultation-paper-april2023.pdf>, pp. 19-20.

²³ Parliamentary Budget Office 2022, ‘Fuel taxation in Australia’ (Budget Explainer), https://www.apb.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Budget_Office/Publications/Budget_explainers/Fuel_taxation_in_Australia.

²⁴ Some of the challenges and prospects associated with introducing a road-user charge at different jurisdictional levels are explored in: J Hewett 2022, ‘Road user charges on EVs prove politically taxing’ (opinion piece), 21 August, *Australian Financial Review*, <https://www.afr.com/companies/transport/road-user-charges-on-evs-prove-politically-taxing-20220821-p5bbj0>.

²⁵ VicRoads 2023, ‘ZLEV road-user charge’, <https://www.vicroads.vic.gov.au/registration/registration-fees/zlev-road-user-charge>.



for more information please contact

Gabriella Warden

Manager, Research and Government Relations

gabriella.warden@carbonmarketinstitute.org

+61 (0) 418 263 296

+61 (03) 8601 1142

The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.

