

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

The Australian New Vehicle  
Efficiency Standard (NVES)  
Consultation Impact Analysis

**submission**

March 2024





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

## New Vehicle Efficiency Standard (NVES) Cost Impact Analysis

### **submission**

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The Carbon Market Institute (**CMI**) welcomes this opportunity to respond to the Department of Infrastructure, Transport, Regional Development, Communications and the Arts' (**the Department**) New Vehicle Efficiency Standard Cost Impact Analysis (**Consultation Paper**), which opened for consultation on 4 February 2024.

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. Our membership includes 150+ primary producers, carbon service providers, First Nations organisations, legal and financial institutions, technology firms and emissions-intensive companies in Australia and Asia Pacific. The CMI Board updates CMI's Policy Positions annually, which draw on practical insights from—but are ultimately independent of—members.<sup>1</sup>

CMI also administers the Australian Carbon Industry Code of Conduct (**ACI Code**), which was established in 2018 to steward consumer protection and market integrity.<sup>2</sup>

### **Strategic outlook**

CMI strongly supports the Albanese Government's efforts to introduce a fuel efficiency standard, the New Vehicle Efficiency Standard (**NVES**).

Recent updates to Australia's National Greenhouse Accounts show that transport emissions are rising.<sup>3</sup> Without policy intervention, the transport sector will overtake electricity and industry as the largest source of Australia's emissions by 2030.<sup>4</sup> As highlighted in our response to the Department's initial consultation in May 2023, CMI recognises a fuel efficiency standard like the NVES is an efficient, market-based solution that will address new light vehicle emissions, supporting Australia's 2030 nationally determined contribution (**NDC**) while improving vehicle optionality and costs for motorists.<sup>5</sup>

We similarly welcome the Government's overarching efforts to develop a Net Zero Plan and six sectoral decarbonisation plans—including a Transport and Infrastructure Net Zero Roadmap and Action Plan.<sup>6</sup>

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<sup>1</sup> CMI 2023, 'CMI Policy Positions', [https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions\\_FINAL-2023.pdf](https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions_FINAL-2023.pdf).

<sup>2</sup> CMI 2024, 'Australian Carbon Industry Code of Conduct', <https://carbonmarketinstitute.org/code/>.

<sup>3</sup> Department of Climate Change, Energy, the Environment and Water (DCCEEW) 2024, 'Quarterly Update of Australia's National Greenhouse Gas Inventory: September 2023', <https://www.dcceew.gov.au/sites/default/files/documents/ngqi-quarterly-update-sept-2023.pdf>.

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

<sup>5</sup> CMI 2023, 'the Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia submission', [https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31\\_Carbon-Market-Institute-submission\\_Fuel-efficiency-standard-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf).

<sup>6</sup> DCCEEW 2023, 'Net Zero', <https://www.dcceew.gov.au/climate-change/emissions-reduction/net-zero>; Department of Infrastructure, Transport, Regional Development, Communications and the Arts (DITRDCA) 2023, 'Transport and Infrastructure Net Zero Roadmap and Action Plan', <https://www.infrastructure.gov.au/infrastructure-transport-vehicles/transport-and-infrastructure-net-zero-roadmap-and-action-plan>.



Additional policy interventions are required alongside the NVES to accelerate broader transport decarbonisation, while decarbonisation interdependencies between the transport and electricity sectors underscore the need for economy-wide action.

We consider the sectoral plans as an opportunity for Government to identify and implement complementary decarbonisation drivers across the economy. A coordinated and holistic approach to sectoral decarbonisation will position Australia to realise an uplifted 2035 NDC—which CMI maintains should aim to reduce emissions by well over 70 percent, based on 2005 levels.<sup>7</sup>

CMI provides commentary on the NVES design options presented in the Department’s Consultation Paper in the **Attachment**.

While supportive of the Government’s preferred design (Option B), we encourage adoption of the most NVES ambitious design (Option C) to close the gap between Australia and international peers with established fuel efficiency standards as quickly as possible. We suggest that establishing a fuel efficiency standard for second-hand imported vehicles alongside an Option C NVES would support more equitable policy outcomes than an Option B NVES on its own. CMI does not support an NVES design that would not catch up to international standards (Option A).

International best practice demonstrates that nationally coordinated policy and regulatory frameworks can accelerate transport decarbonisation and realise additional environmental, economic and social benefits.<sup>8</sup> Our recommendations therefore also highlight policy options that would complement the NVES. These include interventions to drive domestic aviation and heavy vehicle decarbonisation, as well as complementary behavioural interventions that cut across transport segments and reinforce broader sectoral decarbonisation by encouraging emissions avoidance.

Finally, we emphasise the need for a nationally harmonised distance-based road user pricing framework to replace fuel excise revenue in the long term, without stunting LZEV uptake in the short-to-medium term.

CMI looks forward to exploring these recommendations in further detail in the Department’s forthcoming public consultation on the Transport and Infrastructure Net Zero Roadmap and Action Plan.<sup>9</sup>

Should you wish to discuss this submission in more detail, please contact Gabriella Warden ([gabriella.warden@carbonmarketinstitute.org](mailto:gabriella.warden@carbonmarketinstitute.org)).

Yours sincerely

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<sup>7</sup> CMI 2023, ‘CMI Policy Positions’, [https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions\\_FINAL-2023.pdf](https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions_FINAL-2023.pdf); CMI 2023, ‘Climate Change Authority: Setting, tracking and achieving Australia’s emissions reduction targets submission’, [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf).

<sup>8</sup> For example, Norway’s EV Policy 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’ similarly sits within its Industrial Strategy and includes the ambition for 50% 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](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/739460/road-to-zero.pdf).

<sup>9</sup> DITRDCA 2023, ‘Transport and Infrastructure Net Zero Roadmap and Action Plan’, <https://www.infrastructure.gov.au/infrastructure-transport-vehicles/transport-and-infrastructure-net-zero-roadmap-and-action-plan>.



## ATTACHMENT

### CMI Recommendations

CMI's recommendations intend to inform the Government's adoption of an NVES for Australia that reduces light vehicle emissions and catches up with fuel efficiency standards abroad as quickly as possible. We also identify complementary tools that could support a holistic approach to transport decarbonisation.

#### **1. The Government should adopt the most ambitious Option C for the NVES design to facilitate Australia's fuel efficiency standard aligning with those in comparable markets as quickly as possible and before 2030.**

While recognising the Government's preferred design Option B as an ambitious and achievable NVES that would drive down light vehicle emissions and catch up to the United States' fuel efficiency standard before 2030, CMI prefers the most ambitious Option C, which would approach CO<sub>2</sub> g/km targets under the New Zealand Clean Car Standard in 2027.<sup>10</sup>

To incentivise car manufacturers to sell their newest, most fuel-efficient light vehicle models in Australia, the NVES should achieve parity with standards in comparable right-hand drive vehicle markets where these cars are currently being sold as quickly as possible.<sup>11</sup>

CMI would not support an NVES under "modest and cautious" design Option A. We caution that if Australia's NVES lags behind international fuel efficiency standards—as Option A proposes—manufacturers will continue to prioritise more fuel-efficient models for other markets and Australian drivers will continue to receive older, less-efficient cars.<sup>12</sup> The drawbacks of Option A, compared with Options B and C, are clearly demonstrated in the Consultation Paper's cost benefit analysis.<sup>13</sup>

#### **2. The Government should consider a parallel fuel efficiency standard for imported second-hand cars to accelerate emissions reductions and support more equitable policy outcomes by kickstarting the second-hand low- and zero-emissions vehicle (LZEV) market.**

CMI notes that the focus on 'new' light vehicles under the NVES will predominantly benefit Australians in the new vehicle market, with fuel savings benefits trickling down to second-hand buyers in later years. To support

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<sup>10</sup> The New Zealand Clean Car Standard was introduced on 1 July 2023 and has a 2027 target of 63.3 CO<sub>2</sub> g/km and 87.2 CO<sub>2</sub> g/km for passenger and commercial light vehicles respectively, compared with 92 CO<sub>2</sub> g/km and 129 CO<sub>2</sub> g/km under Option B of the Consultation Paper or 66 CO<sub>2</sub> g/km and 101 CO<sub>2</sub> g/km under Option C of the Consultation Paper. See: NZ Transport Agency 2023, 'Data, values and formulas: Clean Car Standard CO<sub>2</sub> value', <https://www.nzta.govt.nz/vehicles/clean-car-programme/clean-car-standard/information-for-importers-how-the-ccs-works/data-values-and-formulas/>; DITRDCA 2024, 'Cleaner, Cheaper to Run Cars: The Australian New Vehicle Efficiency Standard: Consultation Impact Analysis', available for download at: <https://infrastructure.gov.au/departments/media/news/have-your-say-new-vehicle-efficiency-standard-australia>.

<sup>11</sup> As highlighted by the Climate Council: Climate Council 2023, '10 things you should know about fuel efficiency standards', <https://www.climatecouncil.org.au/how-australia-can-boost-electric-vehicle-supply/>.

<sup>12</sup> Climate Council 2023, '10 things you should know about fuel efficiency standards', <https://www.climatecouncil.org.au/how-australia-can-boost-electric-vehicle-supply/>.

<sup>13</sup> DITRDCA 2024, 'Cleaner, Cheaper to Run Cars: The Australian New Vehicle Efficiency Standard: Consultation Impact Analysis', p. 43, available for download at: <https://infrastructure.gov.au/departments/media/news/have-your-say-new-vehicle-efficiency-standard-australia>.



more 'equitable' policy outcomes, we maintain that the Government should also consider a fuel efficiency standard for imported second-hand light vehicles to kickstart the second-hand LZEV market.<sup>14</sup>

The Consultation Paper considers Option C as not meeting the 'equitable' NVES guiding principles.<sup>15</sup> A parallel second-hand vehicle fuel efficiency standard could address this by providing downstream benefits to Australians in the used car market more quickly. CMI considers that an Option C NVES accompanied by a parallel second-hand vehicle fuel efficiency standard may achieve a more equitable policy outcome than an Option B NVES on its own.

The Government could consider the approach in New Zealand, where a parallel but less stringent CO<sub>2</sub> g/km target is applied to imported second-hand cars alongside the target for new vehicles.<sup>16</sup>

### **3. The Government should consider complementary policies for transport segments adjacent to the light vehicle segment, including a heavy vehicle emissions standard or liquid-fuel ETS for heavy road transport, and a jet fuel ETS for domestic aviation.**

CMI supports the Government's focus on decarbonising Australia's light vehicle fleet, given it comprises over half of transport emissions.<sup>17</sup> However, holistic sectoral decarbonisation will require interventions in adjacent transport segments. While recognising there will be opportunity to explore broader sectoral decarbonisation tools in the Department's forthcoming Transport and Infrastructure Net Zero Roadmap and Plan consultation, we highlight solutions for priority segments below.

#### **Heavy road transport**

Buses and trucks are the second-largest contributor to transport emissions following light vehicles.<sup>18</sup> Moreover, while 65 percent of rail freight emissions are covered under the Safeguard Mechanism, only 2 percent of road freight emissions are captured.<sup>19</sup>

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<sup>14</sup> See CMI's recommendation 3 in: CMI 2023, 'the Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia submission', [https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31\\_Carbon-Market-Institute-submission\\_Fuel-efficiency-standard-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf), p. 5.

<sup>15</sup> DITRDCA 2024, 'Cleaner, Cheaper to Run Cars: The Australian New Vehicle Efficiency Standard: Consultation Impact Analysis', p. 57, available for download at: <https://infrastructure.gov.au/department/media/news/have-your-say-new-vehicle-efficiency-standard-australia>; 'Equitable' was also listed as a guiding design principle for the policy in the original 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-australiaconsultation-paper-april2023.pdf>, p. 12.

<sup>16</sup> See: CMI 2023, 'the Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia submission', [https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31\\_Carbon-Market-Institute-submission\\_Fuel-efficiency-standard-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf), p. 5.

<sup>17</sup> In 2022, light vehicles contributed 60 percent of transport emissions and 11 percent of Australia's total emissions. See: 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>.

<sup>18</sup> 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/latestrelease#average-age>; CCA 2021, 'Transport' (fact sheet), <https://www.climatechangeauthority.gov.au/sites/default/files/2021-03/2021Fact%20sheet%20-%20Transport.pdf>. Freight on Rail Group (FORG) 2022, 'Submission in response to the Safeguard Mechanism Consultation Paper', (available at: <https://consult.dcceew.gov.au/safeguard-mechanism-reform-consultation-paper/submission/list>).

<sup>19</sup> FORG 2022, 'Submission in response to the Safeguard Mechanism Consultation Paper', (available at: <https://consult.dcceew.gov.au/safeguard-mechanism-reform-consultation-paper/submission/list>).



CMI recognises the Government's 'Hydrogen Highways' state and territory co-investment program as an existing driver of heavy vehicle decarbonisation.<sup>20</sup> To ensure rail freight operators do not shut down, causing emissions to 'leak' into road transport, the Government should consider the following additional interventions to drive road transport decarbonisation:

- a heavy vehicle fuel efficiency standard that would introduce targets for low and zero emissions buses and trucks; and/or
- a liquid-fuel emissions trading system (**ETS**) for heavy vehicles—noting that this should encourage renewable diesel and 'drop-in' biofuel uptake for older vehicles without eroding incentives for LZEV freight uptake.

These measures could be complemented by additional fleet transition incentives such as direct financial incentives, targeted support for charging infrastructure and pick-up/drop-off locations, dedicated freight vehicle charging zones, low-emission zones where high-emitting vehicles are charged an access fee, and priority parking areas for LZEVs (e.g., green loading zones).<sup>21</sup>

### Domestic aviation

Domestic aviation emissions have grown since the COVID pandemic and continue to rise, as shown in recent quarterly updates of Australia's greenhouse gas inventory.<sup>22</sup> While the Safeguard Mechanism does include aviation, it covers only two domestic air carriers; Qantas and Virgin Australia. Among interventions to support holistic aviation decarbonisation, CMI encourages the Government to consider a jet fuel ETS that could encourage sustainable aviation fuel (**SAF**) uptake.<sup>23</sup>

## **4. The Government should consider dependencies between transport and adjacent sectors—namely, the electricity sector—to unlock and maximise decarbonisation synergies.**

CMI welcomes the Government's November 2023 Capacity Investment Scheme announcement<sup>24</sup> as a step to accelerate renewable energy deployment towards meeting the 2030 82 percent Renewable Energy Target (**RET**). The Capacity Investment Scheme will also help ensure the increasing electrification of Australia's light vehicle fleet—supported by the future NVES—achieves greater emissions reductions.

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<sup>20</sup> The Government's existing Hydrogen Highways state and territory co-investment program is an existing driver of heavy vehicle decarbonisation. See: 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.

<sup>21</sup> See more on CMI's recommendations for heavy road transport in: CMI 2023, 'Climate Change Authority Setting, tracking and achieving Australia's emissions reduction targets submission', [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf), p. 22.

<sup>22</sup> DCCEEW 2024, 'Quarterly Update of Australia's National Greenhouse Gas Inventory: September 2023', <https://www.dcceew.gov.au/sites/default/files/documents/ngqi-quarterly-update-sept-2023.pdf>, p. 16.

<sup>23</sup> Other means of encouraging aviation decarbonisation may include: amending the NGER Rule to require all domestic carriers to report nationally as one entity to bring other airlines into the Safeguard Mechanism, co-investment in SAF industry development, and targeted funding for R&D in aviation decarbonisation through ARENA and the CEFC. Further details in: CMI 2023, 'Climate Change Authority Setting, tracking and achieving Australia's emissions reduction targets submission', [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf), p. 22.

<sup>24</sup> See: DCCEEW 2023, 'Joint media release: Capacity Investment Scheme supports NSW to deliver 1GW of cleaner, cheaper more reliable energy for NSW', <https://minister.dcceew.gov.au/bowen/media-releases/joint-media-release-capacity-investment-scheme-supports-nsw-deliver-1gw-cleaner-cheaper-more-reliable-energy-nsw>.



Nevertheless, we continue to advocate for a longer-term solution to drive electricity sector decarbonisation beyond 2030, which could include extending the RET and/or bringing individual electricity operators into the reformed Safeguard Mechanism.<sup>25</sup>

**5. The Government should take a long-term, systemic approach to transport policy planning that includes encouraging emissions avoidance behaviours.**

Alongside interventions to support low and zero emissions transport solutions, avoidance-based behavioural change as a powerful tool for reducing emissions.

In addition to exercising caution in promoting the fuel-savings benefits of the NVES, CMI encourages the Government to collaborate with state, territory and local governments on synergistic strategies that reduce both congestion and vehicle emissions. These may include a combination of public transport investment, congestion levies, health awareness campaigns, and incentives to encourage ridesharing.<sup>26</sup>

**6. The Government should lead on coordinating a nationally harmonised approach to fuel and transport pricing reform that encourages short-term uptake of LZEVs whilst pursuing a distance-based road user pricing framework in the long term.**

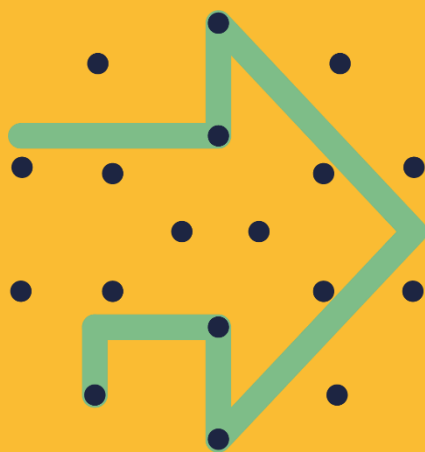
The Commonwealth-administered fuel excise is a significant consolidated revenue stream. CMI encourages the Government to collaborate with states and territories on a harmonised distance-based road user pricing framework for all vehicles that can replace the fuel excise in the longer-term.<sup>27</sup> The introduction of such pricing regulations should be carefully coordinated and sequenced so that it supports short-term LZEV uptake whilst laying the groundwork for a distance-based road user pricing framework in the long-term.

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<sup>25</sup> See more in: CMI 2023, 'The Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia submission', [https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31\\_Carbon-Market-Institute-submission\\_Fuel-efficiency-standard-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf), p. 5; CMI 2023, 'Climate Change Authority Setting, tracking and achieving Australia's emissions reduction targets submission', [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf), pp. 22–23.

<sup>26</sup> As articulated in: CMI 2023, 'The Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia submission', [https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31\\_Carbon-Market-Institute-submission\\_Fuel-efficiency-standard-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf), pp. 5–6.

<sup>27</sup> See details on how a distance-based road user pricing levy could be phased in over time in: CMI 2023, 'The Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia submission', [https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31\\_Carbon-Market-Institute-submission\\_Fuel-efficiency-standard-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf), p. 6.



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Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a negative emission, nature positive economy.



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