



Automotive Industry Alliance

Submission to the Fuel Efficiency Standard - Cleaner and Cheaper-to-run Cars for Australia Consultation Paper

May 2023

Submission Participants (“we” or “Automotive Industry Alliance”)

- Australian Automotive Aftermarket Association (AAAA)
- Australian Automotive Dealer Association (AADA)
- Federal Chamber of Automotive Industries (FCAI)
- Motor Trades Association of Australia (MTAA) State and Territory Motor Trade Associations and Automotive Chamber:
 - o Motor Trade Association (SA/NT)
 - o Motor Trade Association of WA
 - o Motor Trades Association of Queensland
 - o Motor Traders’ Association of NSW
 - o Victorian Automotive Chamber of Commerce
- National Automotive Leasing and Salary Packaging Association (NALSPA)

Glossary

<i>Agreed Positions</i>	Industry positions articulated in the Automotive Industry Alliance July 2022 Mobility inspired by sustainability The Automotive Industry’s agreed positions to achieve the orderly transition to the electrification of Australia’s future mobility and transport.
<i>Consultation Paper</i>	Australian Government 2023 – The Fuel Efficiency Standard – Cleaner, Cheaper to Run Cars for Australia
<i>FES</i>	Fuel Efficiency Standard
<i>NEVS</i>	National Electric Vehicle Strategy – DCCEEW 2023, The National Electric Vehicle Strategy, Department of Climate Change, Energy, The Environment and Water, Canberra, CC by 4.0
<i>ZLEV</i>	Zero and Low Emission Vehicles.

This submission has been prepared by ten leading automotive organisations in Australia, that share common interests in the decarbonisation of the Australian light vehicle fleet and have come together as an Automotive Industry Alliance to represent those interests in a response to *The Fuel Efficiency Standards Cheaper to Run Cars For Australia Consultation Paper* (Consultation Paper). Individual members of the Automotive Industry Alliance will provide submissions which provide additional commentary and detailed analysis on the issues raised in the Consultation Paper.

The organisations that form the Automotive Industry Alliance represent companies that contribute \$39.53 billion towards Australia's GDP and represent 385,000 workers in 72,521 businesses spanning retail, sales, services, repair, aftermarket, leasing, fuelling, dismantling, recycling, and discrete professions from the far corners of the country. In 2022 the Automotive Industry Alliance made a submission to the NEVS consultation process. That submission detailed the Alliance held 'Agreed Positions'. These positions were:

1. **Targets & Milestones** – We embrace the transition to electrification; with alignment that decarbonisation targets should be our policy focus and consider the entirety of the registered vehicle fleet. A federal government led national policy on CO2 emissions is imperative to ensure no state or territory is left behind as we transition to electrification.
2. **Incentives, Subsidies & Penalties** – We support federally led and appropriately targeted incentives including but not limited to private and public charging, non-financial (e.g., transit lanes) and targeted purchase incentives, which support an orderly, timely and sustainable transition to zero and low-emission vehicles.
3. **Taxation & Tariffs** – Taxation modernisation to reflect and support ZLEV uptake must be federally led (or nationally consistent), non-punitive in nature and encourage a range of zero and low-emission vehicle technologies.
4. **Fuel Standards & Security** – We note that in order to contribute to reducing emissions in Australia in light of a significant legacy fleet for years to come, we would like to see the most advanced fuel options in the market consistent with international fuel standards.
5. **Fleet Management** – We will respect and maintain the integrity of the fleet in Australia by educating the importance of ongoing maintenance while encouraging the transition to electrification.
6. **Education & Awareness** – The automotive sector has a key role to play as the interface with consumers in the transition to ZLEV. We support broader education programs and campaigns regarding the transition to ZLEV with aligned factual data and sensible commentary in support of the Australian electrification transition.

Development of a FES is a critical part of the transition – but not the only instrument we require.

It is important to be clear that the Automotive Industry Alliance fully supports the development of a Fuel efficiency Standard (FES).

The development and legislated introduction of the FES whilst of fundamental importance, should not be however expected to be a standalone solution to emissions reduction.

Complementary policies that drive consumer awareness and demand and ensure that the necessary infrastructure is in place amongst other measures are critical to support the continued demand for and introduction of zero and low emissions vehicles into the Australian market. Such policies must best support and consider the needs of consumers across metro, regional and remote Australia.

The Automotive Industry Alliance welcomes the recently released National EV Strategy (NEVS), as a positive step to assist in the transition of the vehicle sales, however notes that the scale and scope of the policies does not match those in place in major markets such as the US or the EU. It is important in considering the design and the ambition of an Australian FES that when international comparisons are made that the full suite of policy settings are taken into account.

The impact and importance of appropriate targeted incentives developed alongside a FES should also not be underestimated. When the US Government and automotive companies agreed to the Executive Order issued by President Biden on 5 August 2021 targeting 50 per cent of new vehicle sales by 2030 being Battery Electric Vehicle and Plug in Hybrid, there was also an unprecedented package of incentives developed to support the achievement of the ambitious targets. These incentives include:

- US\$ 7,500 EV incentive – conservatively forecasted to cost the US Government more than US\$15bn;
- US\$7.5 bn to build a national network of 500,000 chargers;
 - Up to US\$45 per kW/Hr battery production credit – estimated to cost more than US\$30.6bn through to 2032. As part of this package, one major manufacturer expects to claim US\$1bn this year while another estimates credits to a value up to US\$5,500 per vehicle.
- 100 percent of new light-duty federal government vehicles to be zero emission by 2027.

Without equivalent pro rata incentives or similar, in addition to the newly legislated Fringe Benefits Tax Exemption on eligible employer provided low and zero emissions vehicles which has had an immediate and overwhelmingly positive impact upon domestic EV demand, OEMs in Australia will be challenged to close the transaction price and stimulate demand to ensure priority allocation of product to meet similar or greater targets similar to those in European Union and the United States.

As the Consultation Paper highlights it is important for the community that the FES ensures the ‘continued sale of vehicles Australians love, including utes and four-wheel drives and that the FES drives better fuel efficiency in those vehicles’.

To put this challenge into perspective, information sourced from S&P Global, the globally recognised research experts on the automotive industry, illustrates the difficulty of bringing the buyers of cars that everyday Australians drive along on the transition to a decarbonised new vehicle market.

This data shows that the entry price point for a BEV passenger motor vehicle in the mid-size passenger vehicles (C segment) in the Australian market in the year 2030 is forecast to be almost AUD\$37,000, a price premium of around AUD\$12,000 on the forecast entry point for the equivalent internal combustion engine vehicle. In addition, 82 per cent of the internal combustion engine passenger motor vehicles in this segment in 2030 are projected to be priced below the BEV entry point BEV.

Likewise, in the mid-sized SUV segment the analysis is similar. In this segment a BEV is forecast to cost around AUD\$40,500 in 2030, a price premium of around \$11,000 on the forecast entry point for the equivalent internal combustion engine vehicle. In addition, 47 per cent of the internal combustion engine passenger motor vehicles sold in 2030 are forecast to be priced below the entry point BEV.

Therefore, the Automotive Industry Alliance supports an ambitious but achievable FES that has a considered start, a ten-year outlook with reviews every three years as the availability and pricing of vehicles becomes more certain.

The Automotive Industry Alliance also encourages the Government to set targets using a similar rate of improvement in CO₂ efficiency to other major similar automotive markets using the current Australian emissions reduction performance as a potential starting point.

Additionally, in the absence of an equivalent pro-rated suite of policies, an appropriately designed FES with inbuilt mechanisms such as multipliers for low emissions vehicles and off cycle credits will go some way to incentivise car makers to supply more zero and low emissions technologies to Australia.

These mechanisms can be tailored to incentivise the development and sale of these technologies in the vehicle categories that are currently challenging to electrify especially in the entry level passenger cars, SUVs and utes.

The Automotive Industry Alliance urges caution to the Australian Government in any disincentivising of hybrid vehicles and in particular Plug in Hybrid Electric Vehicles (PHEV). While focusing on meeting community expectations regarding CO₂ emission reductions, the expanse of the Australian landscape, a preference for larger vehicles and purchasing constraints due to EV pricing, every opportunity should be taken to assist the vehicle fleet transition through the application of all ZLEV variants.

Infrastructure Gaps.

There remains significant infrastructure barriers to the successful adoption of ZLEVs with the requirement for public charging estimated to be over 31,000 chargers by 2030 by S& P Global given a car parc of around 1.4 million vehicles with traction batteries. The design of the FES, and future reviews, needs to consider the considerable charging infrastructure gap, transmission and generation capability as a key parameter to influence consumer demand for EVs needed to meet an ambitious FES.

Failure to address infrastructure challenges will create a significant obstacle to promoting ZLEV sales in support of the FES. It is unrealistic to assume that customers will demand ZLEV technologies if the supporting vehicle charging infrastructure Australia wide is not in place.

Education and awareness campaigns

As highlighted in previous submissions there is an ongoing role for government and industry to undertake ongoing education and increase awareness of the benefits of ZLEV's

Implementation Issues

It is recommended by the Automotive Industry Alliance that existing robust and timely datasets such as VFACTs are used for the implementation of the FES. This will also increase the speed of implementation of the FES rather than delaying the standard due to IT development.

Conclusion

The Automotive Industry Alliance supports the development of a FES, one that is both ambitious and achievable. It is critical that the Australian government takes into account the latest research on future right hand drive vehicles that could be sold in Australia in the development of the FES.

The Automotive Industry Alliance also recommends an appropriate level of caution in simply following other countries' policies which have fundamentally different characteristics and vehicle usage to that of the Australian market. It also encourages the Federal Government to work with industry, inclusive of Alliance members to develop a policy that is appropriate to the Australian market including Australian consumers.

One final point.

The aim of this policy should be to decarbonise the light vehicle sector. Ideally this should be done in the most efficient and effective way recognising where Australia starts in this process and the unique challenges of the Australian market. Central to this reform is the critical importance of engaging with consumers. Key to the transition for consumers is the availability of vehicles that meet their work, family and personal needs at a price they can afford. An appropriately designed FES can achieve this goal.