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AI GROUP RESPONSE TO THE NEW VEHICLE EFFICIENCY STANDARD CONSULTATION IMPACT ASSESSMENT

The Australian Industry Group (Ai Group) welcomes the chance to make a submission on the New Vehicle Efficiency Standard (NVES) [Consultation Impact Analysis](#) (the Analysis).

Ai Group is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for over 150 years. Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, waste services, the defence industry, retail, aged care, civil airlines and ICT.

Ai Group supports the overall intent of the NVES, including the goals both of delivering efficient emissions reductions towards Australia's climate ambitions and of supporting more affordable transport. Many of our members have their own commitments to net zero emissions and to interim emissions reduction targets; and some have more specific commitments to the reduction of their transport emissions.

Achieving net zero emissions by mid-century and working within a carbon budget consistent with a global 1.5 degree temperature rise are challenging goals that will require significant action across the Australian economy. The less that can be achieved in one sector, the more will be needed elsewhere – potentially at higher cost. Failing to achieve the overall goals will also have costs to Australia's competitiveness and prosperity. Close and sustained attention will be needed to efficiency and practical implementation in pursuing emissions reductions of the scale sought economy wide.

Several specific features of the light vehicle segment of the transport sector are important to policy decisions.

1. Transport users, whether individuals, businesses or other organisations, have a wide variety of transport needs that depend on their circumstances and values. Many of Ai Group's members operate their own fleets of light vehicles to facilitate their businesses and enable employees to do their jobs, and their requirements vary by range, climatic conditions, cargo capacity, usage patterns, and emissions reduction commitments. The upshot is that any transport sector efficiency policy must provide the flexibility to address these diverse needs.
2. Total transport emissions and total cost of transport services depend on the state of the overall light vehicle fleet, which turns over slowly. To make a significant difference to outcomes from the total fleet by, say, 2035 requires a combination of scale of change and speed of change. The earlier the new fleet changes (noting the practical challenges to rapidly introducing policies), the gentler the rate of change in efficiency standards can be. The later change begins, the more rapid the rate of change must then become for a given total outcome.
3. Australia's features as a vehicle market make our circumstances distinct from other markets with efficiency standards. Importantly, given the Government's proposal focuses on convergence with

the United States, we are like the United States in that our people have very diverse needs and often great distances to traverse; but unlike them in that we are a small market, we use right hand drive, we lack a local light vehicle assembly industry, and we have a distinct set of climatic conditions. In some ways we have high freedom of action, with the ability to source suitable models from anywhere; but our small size and any unique requirements are constraints.

Assessing the Government's proposed Option B against these issues, our judgment is that the policy is positive but several important outstanding questions need to be addressed.

In terms of **flexibility** for suppliers to meet diverse customer needs, the principle forms of flexibility offered are the two limit curves for passenger vehicles (PVs) and light commercial vehicles (LCVs), which provide recognition for the different use cases and demanded capabilities for these vehicle types; and the crediting and debiting system, which lets liable parties smooth out compliance across time, vehicle classes, and different suppliers. Both are vitally important and interconnected. Twin curves enable appropriately different treatment across different vehicle classes, though if they diverge too far there is the potential for perverse incentives. Fungibility of credits across classes and tradability between suppliers helps alleviate the risk that the circumstances of one vehicle class or a particular supplier produce large differences in the marginal cost of compliance.

Convergence to the United States standards makes sense, but there are complicating factors. Option B does not offer other forms of flexibility that have been important in the USA and European Union, including supercredits, technology credits and refrigerant credits. There are reasonable arguments for this choice including overall scheme simplicity and a tight focus on performance benefits. But it does mean that the twin limit curves and crediting become completely central to meeting flexibility needs; and that a policy intended to approximate US ambition may in practice be significantly more stringent.

In addition, there is some uncertainty about the US approach. Standards are clearly articulated through 2026. The United States Environment Protection Agency proposed follow on standards for consultation last year, which are reflected in the Analysis. However [US media recently reported](#) that US EPA will revise its proposal, moderating the decline in the emissions standard from 2026-30 and accelerating the decline from 2030. It is also possible that the next US Administration will take a different approach. It will be some time before the US context is clearer, and it may never be fully and definitively clear.

On the other hand, there is a global upsurge in ZLEV investment by suppliers, a range of new entrants and shifts in patterns of trade. The net impact of all this on model availability in Australia will take time to play out. Australia will need to make decisions despite, and in the light of, all this uncertainty.

There appear to be significant **delivery risks** around commencing the standard in 2025, irrespective of the level of the standard. A start date of 1 January 2025 provides very little time to finalise policy settings, navigate legislation through the Parliament, and – most uncertainly – complete a significant IT project to set up the systems through which regulated parties will comply. There is a substantial chance that 2025 is a somewhat chaotic first compliance year, with key systems not ready and liable parties improvising their own solutions. It is also important to recognise that the introduction of the standard in 2025 is not likely to have a great influence on the mix of vehicles sold in that year. This is so both because the foreshadowed standards for 2025 are moderate under all Options, and because the supply pipeline is already largely set and would be difficult to change.

The potential for **penalty revenue** deserves consideration. While the Government may anticipate that liable parties who are unable to comply within their own fleet sales will purchase credits from other parties, it is possible that in some years there will be inadequate credit supply as the standard tightens. Significant penalties could be paid. Meanwhile there are important needs for stronger investment in electric vehicle charging provision; many would also argue for greater financial assistance to individuals to improve accessibility of electric vehicles.

We have also heard a range of views from our members on Option B.

The limit curve and crediting settings mean that marginal compliance costs between different suppliers should be similar. However vehicle suppliers express fears that total compliance costs will be very different depending on each supplier's vehicle mix. There are relatively few extant or expected models of LCV that meet the standard by 2028, whereas there will be many PV models that meet the standard. Suppliers with a higher share of LCVs are thus more likely to have significant external costs to purchase credits from other suppliers. Over the long term, and in combination with tightening standards in much larger overseas markets, this is an incentive to increase the range of lower emissions LCVs. In the short and medium terms suppliers' ability to respond in this way may be constrained by their supply chains, technological capabilities and customer willingness to pay; vehicle suppliers have expressed the fear that exposed suppliers may instead opt to limit local provision of certain vehicle types in order to limit costs or avoid cross-subsidies within their own sales.

From member businesses who operate fleets we have heard a mix of views. Some emphasise their strong needs for performance characteristics that they judge only internal combustion engine (ICE) vehicles can currently provide, and hence the importance of the continued availability of a wide range of models and the flexibility for suppliers to provide them. Others emphasise their own goals to cut their fleet emissions, which include both PVs and LCVs, and the importance of help from a standard in expediting these plans.

Members who supply energy, equipment or services to ICE and/or ZLEV vehicles tentatively assess that Option B is broadly consistent with Australia's long term climate objectives and the market they are investing towards.

Ai Group's conclusions are that if it can be successfully implemented Option B would make a strong contribution to Australia's emissions and cost reduction objectives, and indeed may be more stringent than many stakeholders understand. However there are near term implementation risks and broader uncertainty about the specific plans of the United States, the range of global model availability and how vehicle suppliers to Australia may respond, and thus the extent to which Australians will have access to the models they need. Our recommendations are:

- Pursue commencement from 1 January 2025, but treat this initial year as a learning experience for all stakeholders. Provide for soft enforcement of reporting dates and no or limited pursuit of any civil penalties in this first year.
- Ensure strong ongoing departmental funding allocations for the regulatory functions; despite the Government's efforts to streamline its proposal compared to overseas schemes, considerable administrative work and industry engagement will be involved.
- Maintain the proposed complete fungibility of credits between vehicle classes. This is essential to moderate the risk of excessive marginal costs of compliance.
- Require the 2026 review of the NVES to consider the latest information on the equivalence of standards in the United States and other major relevant markets, and how to adjust our own standards in light of that and our circumstances and needs.
- Review current and announced model availability (distinguishing PVs and LCVs) and expected scheme-wide balance of credits and debits at the end of each compliance year, to inform a decision by the Minister on whether to maintain or pause the rate of decline in the standard in each category if availability has significantly declined. Any pause should take effect in the second compliance year following the decision (to minimise disruption to suppliers) and be balanced by a faster rate of decline starting in the fifth compliance year following the decision (to achieve the same overall long term impact on consumer costs and emissions). This is comparable in intention, though distinct in mechanism, to the foreshadowed US EPA decision to moderate its previously proposed pre-2030 standards while accelerating standards from 2030 onwards.
- Commit to a substantial increase in financial support for charging infrastructure, including incentives for upgrades to multiple-unit dwellings and public buildings; and consider targeted support to lower-income Australians to ease their adoption of new efficient vehicles. The costs of these initiatives can

be defrayed by any penalty revenue, though we do not recommend formal hypothecation.

Ai Group also offers the following answers to the questionnaire posed to all stakeholders, reproduced here as well as answered online:

4. *Please rank the proposed options in order of preference. (optional)*
B, A, C (though there are problems with each)
5. *Briefly, what are your reasons for your choice? (optional)*
B is the closest to acceptable, though the risks around model availability highlighted in our submission need to be addressed. A is excessively weak as a whole, though elements could be borrowed. C poses a much higher risk of inadequate model availability, disproportionate to the additional gross benefits of a tighter standard.
6. *Do you support the Government's preferred option (Option B)? (optional)*
We support the need for a standard and Option B is the best of the options presented. However additional steps are needed, as outlined in our submission, to make successful implementation more likely.
7. *Do you have any feedback on the analysis approach and key assumptions used? (optional)*
Per our submission, we note the unresolved nature of the United States' standards from 2026 onward. Variations from the broad expectations in the Analysis could be significant to the outcomes for model availability.
8. *Briefly, describe how the NVES might impact your organisation. (optional)*
Direct impacts on Ai Group will be minimal. However our members will be impacted in diverse ways. We anticipate that many will benefit from increased availability of LZEVs that cut their fuel costs and ease achievement of their own emissions goals. However there is a risk of significant impacts on some vehicle supplier members, and potential consequent decreased model availability especially in the LCV category; though avoidable, if realised this risk would impact members who operate fleets with strong performance requirements for range and operation beyond the capacity of current charging networks. All members would benefit if the scheme succeeds in driving an efficient level of emissions reduction towards Australia's national goals.
9. *Who should the regulated entity be? See section 7.2 (optional)*
Ai Group does not have strong views on this point.

For any questions in relation to this submission, please contact Ai Group Director of Climate Change and Energy Tennant Reed (tennant.reed@aigroup.com.au, 0418 337 930).

Sincerely yours,

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