

Submission to the Consultation Process on the Design of a Fuel Efficiency Standard

31 May 2023

About Greenpeace

Greenpeace is a global environmental network dedicated to the mission of securing a world capable of nurturing life in all of its magnificent diversity. We are fully independent, accepting no funding from any government, business or political party anywhere in the world. Greenpeace Australia Pacific is an autonomous entity headquartered in Sydney. More than 1.2 million people participate within the Greenpeace Australia Pacific network across all platforms, showing their support for ambitious climate action. Greenpeace considers the current trajectory of global warming to be the single greatest threat to human health, security, and well-being, as well as to global biodiversity. For these reasons we urge the Federal Government to take the strongest possible action on climate change, in line with credible pathways to limiting global heating to 1.5 degrees.

Greenpeace welcomes the opportunity to respond to the The Fuel Efficiency Standard—Cleaner, Cheaper to Run Cars for Australia—Consultation paper,¹ which should be read in conjunction with this submission.

¹Australian Department of Infrastructure, Transport, Regional Development and Communications. "Fuel Efficiency Standard: Cleaner, Cheaper to Run Cars in Australia - Consultation Paper." Accessed May 22, 2023. <https://www.infrastructure.gov.au/department/media/publications/fuel-efficiency-standard-cleaner-cheaper-run-cars-australia-consultation-paper>.

Executive Summary

Strong fuel efficiency standards will deliver cost savings for Australian households, healthier communities, quieter streets, new economic opportunities, reduced dependency on foreign oil, and a critical reduction in harmful carbon emissions.

As such Greenpeace Australia Pacific warmly welcomes the government's commitment to introduce this critical and much overdue policy measure.

In designing these standards Australia can and should benefit from the experience of the many other jurisdictions who have introduced similar standards and have seen the benefits (and pitfalls) realised. This submission identifies the key features which have made those schemes successful - both in reducing emissions from transport and increasing consumer choice and value - and what features should be avoided.

The most important task facing the Government is setting targets and a timeframe for emission reduction which are commensurate with the scale of the climate change challenge, and doing Australia's fair share. Greenpeace urges the Government to remain steadfast in its commitment to reaching net zero emissions by 2050, which necessitates a shift to all vehicle sales being electric by 2030, or 2035 at the latest. We have no time to lose, and no reason to delay further.

If there is a single principle that defines our submission it is this: simplicity. Design a standard with strong targets, linked to climate science, which catches up to other countries in the short/medium term. Avoid anything which unnecessarily complicates the scheme. Introducing a myriad of flexibilities, credits, technology-specific bonuses etc, only serves to undermine transparency and effectiveness. They are unnecessary given the elegance of a well designed fuel efficiency standard with strong targets.

Finally, consider the needs of everyday Australians - many of whom are struggling with the cost of living - when designing the scheme. That means looking at the full picture of complementary policies and tax incentives which affect vehicle purchasing decisions. It means ensuring the policies are in place which makes the decision to purchase a zero emission vehicle a genuine option for those who are doing it tough - because the cost savings on fuel and maintenance will be even more impactful for those families.

And most importantly it means prioritising the interests of ordinary Australians above car industry demands for weak standards that maintain the status quo.

A strong fuel efficiency standard will deliver myriad benefits to Australian consumers and communities, and on the urgent imperative to reduce emissions.

Let's get moving.

Please find the full list of recommendations from Greenpeace Australia Pacific below.

Greenpeace provides the following recommendations on the design and implementation of a fuel efficiency standard:

Recommendation 1: Adopt annual targets which catch-up (approximately) to the projected targets of the US, EU and New Zealand by 2027.

Recommendation 2: Create a trajectory of emissions reductions which trends towards zero by 2030, or 2035 at the latest, to ensure Australia meets its climate targets.

Recommendation 3: Avoid leaving the biggest cuts in emissions to the 2030s and set ambitious initial targets for a ‘fast-start’ to ensure sufficient allocation of ZEVs by automotive importers.

Recommendation 4: If dual targets are adopted, ensure the rate of improvement for both targets occurs in tandem to prevent category shifting, and both trend towards zero by 2030 or 2035 at the latest.

Recommendation 5: Allow credit-banking over a single year, trading of credits between manufacturers and pooling of credits.

Recommendation 6: Ensure transparent reporting on how each importer has reached their target, including whether it utilised traded or banked credits.

Recommendation 7: Set a penalty of \$200 per g/km of target exceedance.

Recommendation 8: Create non-financial penalties for car importers who miss their targets.

Recommendation 9: Adopt a design approach for the FES which explicitly seeks to reduce the market share of inefficient, heavy and overly large vehicles.

Recommendation 10: Super credits should not be used in the FES

Recommendation 11: In the case that they are, they must be capped (in terms of emissions reduction able to be claimed), phased out rapidly (ideally by the second year of the scheme operation), and only apply to zero emissions vehicles.

Recommendation 12: If super credits are used, they must be fully and transparently reported on - it should be clear to what extent each car importer has used credits to reach their FES target.

Recommendation 13: Off-cycle and similar vehicle enhancement credits should not be used.

Recommendation 14: All data pertaining to a fuel efficiency standard should be under the purview of regulatory bodies - and should be made publicly available.

Recommendation 15: The FES should be legislated in the 2023 calendar year, to come into effect from 1 January 2024.

Recommendation 16: Annual targets should be set for each year from 2024 to 2030 inclusive. Targets should be reviewed every 3 years. Targets can be increased but not decreased.

Recommendation 17: Introduce targeted rebates and no interest loans to support access for lower income families. Consider other additional measures.

Recommendation 18: Adopt Recommendation 13 of the Harper Review and remove restrictions on the importation of second-hand cars.

Recommendation 19: Update the Vehicle Type Approval requirements in Australia to allow direct acceptance of type-approved electric vehicles from global major markets.

Recommendation 20: Review and remove or reset all policies which incentivise a shift to heavier, higher polluting vehicles.

Setting Targets for a Fuel Efficiency Standard

Catching up to global markets

Australia is currently at the back of the global queue for electric vehicle supply. Catching up to other major markets will be critical if this situation is to be reversed. Having started so late, Australia will necessarily need to adopt a higher rate of improvement in order to catch up.

Currently the US, EU and New Zealand emissions targets converge around 2027. Greenpeace Australia Pacific advocates Australia catches up to these markets

by this date.²

The mature and rapidly advancing state of the ZEV market will facilitate and ease that transition. While some car importers may struggle to meet ambitious targets more than others, the FES should be designed with a view to the car market as a whole, not individual companies who may have over-invested in ICE manufacturing.

Greenpeace strongly cautions against adopting the 'rate of reduction' used by other markets - this would only reinforce our position at the back of the global queue.

Recommendation 1: Adopt annual targets which catch-up to the projected targets of the US, EU and New Zealand by 2027.

Put Australia on a trajectory to all new vehicles sales being zero emissions by 2030, or 2035 at the latest

The effectiveness of an Australian FES should be assessed against its ability to reduce carbon emissions in line with international commitments, and climate science.

On this the International Energy Agency is abundantly clear: that if the world is to achieve net zero emissions by 2050, all new vehicle sales need to be electric by 2035.³ However that target is the bare minimum, and takes a conservative approach. Research from Greenpeace Germany and the Institute for Sustainable Futures shows that in order to decarbonise road transport and limit global warming to 1.5 degrees with a 67% likelihood of success, no new ICE light duty vehicles can be sold globally beyond 2030.⁴

As such the trajectory of emissions targets needs to put Australia on a path by which all new vehicle sales are electric by 2030, or 2035 at the latest.

Recommendation 2: Create a trajectory of emissions reductions which trends towards zero by 2030, or 2035 at the latest, to ensure Australia meets its climate targets.

Fast Start

It is important for Australia to set strong FES targets over the coming 7 years to avoid the heavy lifting of decarbonisation being shifted to the 2030s, particularly given the long life of cars on our roads - this is the critical decade for shifting Australia's emissions trajectory.

² Electric Vehicle Council. "Increasing the supply of EVs to Australia.", September 2022, https://electricvehiclecouncil.com.au/wp-content/uploads/2022/09/EVC-Briefing_Increasing-the-supply-of-EVs-to-Australia.pdf.

³ International Energy Agency, *An updated roadmap to Net Zero Emissions by 2050*, 2022, <https://www.iea.org/reports/world-energy-outlook-2022/an-updated-roadmap-to-net-zero-emissions-by-2050>

⁴ Teske, S; Bratzel, S; Tellermann, R; Stephan, B & Vargas, M (forthcoming), *The Internal Combustion Engine Bubble*. https://www.greenpeace.de/publikationen/ICE-Bubble_2.pdf

Additionally, while Australia is starting from a relatively high level of emissions across our vehicle fleet, a benefit of our slow pace to adopt emissions standards is that the rest of the world has already done the heavy lifting to shift global supply chains towards zero emission vehicles (ZEVs).⁵ That means Australia does not need to take as long to ‘ramp up’ as other markets. With the US, UK, EU and New Zealand well in front of Australia, the supply signal has already been sent.

Setting strong targets in the early years of the FES operation will mean Australians save more on fuel over a longer period of time, emissions reductions happen faster and Australia will have targets which converge with other major markets sooner, accelerating the global shift to ZEVs.

Recommendation 3: *Avoid leaving the biggest cuts in emissions to the 2030s and set ambitious initial targets for a ‘fast-start’ to ensure sufficient allocation of ZEVs by automotive importers.*

Design Features

Dual Targets

A single emissions target is a simpler approach which would result in more rapid emissions reductions. However if the Government proceeds with dual targets, precautions must be taken to prevent ‘category shifting’, where automotive importers seek to sell models within the category with higher emission targets, leading to higher overall emissions.

To manage that risk, both targets must be strong and must move in tandem on a similar trajectory. The risk of category shifting is amplified if the light commercial category moves very slowly. The dual classes must both reduce together in a linear trajectory.⁶

The original rationale for dual categories - the lack of availability of ZEVs in the light commercial category - is diminishing over time, as new models emerge and become price and range competitive.⁷ This means that even if dual targets are used, there is no justification for using high emissions targets for the light commercial vehicle category over multiple years.

Recommendation 4: *If dual targets are adopted, ensure the rate of improvement for both targets occurs in tandem to prevent category shifting, and both trend towards zero by 2030 or 2035 at latest.*

⁵ International Energy Agency. "Global EV Outlook 2023: Catching up with climate ambitions." 2023. Accessed May 22, 2023. <https://iea.blob.core.windows.net/assets/dacf14d2-eabc-498a-8263-9f97fd5dc327/GEVO2023.pdf>.

⁶ The International Council on Clean Transportation (ICCT). "Light-duty vehicle classification for Australia's fuel efficiency standards." Accessed May 22, 2023. https://theicct.org/wp-content/uploads/2023/04/Australia-segmentation_brief_final.pdf.

⁷ The Climate Council, "Ute Beauty: The Case for Lower and Zero Emissions Utes in Australia", 2023, <https://www.climatecouncil.org.au/resources/ute-beauty-case-for-lower-and-zero-emissions-utes-australia/>

Credit banking, transferring and pooling

Australia should allow the banking of credits over a single year and the trading of credits between manufacturers. Any further flexibility risks undermining the transparency of the scheme through undue complexity, or the undermining of the targets themselves. For example the US EPA has limited the timeframe credits are valid to 5 years to avoid the risk of credit banking undermining the scheme.⁸ Australia should avoid that risk altogether by limiting credit banking to a single year. It is essential that it is easy to calculate whether a car manufacturer has hit or missed their targets in any given year.

Recommendation 5: *Allow credit-banking over a single year, trading of credits between manufacturers and pooling of credits.*

Recommendation 6: *Ensure transparent reporting on how each importer has reached their target, including whether it utilised traded or banked credits.*

Penalties for non-compliance and enforcement mechanisms

Given the EU has a penalty of \$197 per g/km (AUD equivalent) of target exceedance, Australia should look to match or exceed that penalty to ensure ZEV supply to Australia. In a global market with constrained supply, Australia needs to be the most cost-effective place to send ZEVs to kick-start our transition and break the supply deadlock. A high penalty is also necessary to incentivise a change to business as usual - a low penalty may operate within the profit margins of car importers, and therefore have no effect on their importation decisions.

A high penalty price also means that credits traded between car importers are more valuable (as car importers will compare the cost of purchasing credits to the cost of penalties). This will allow cross-subsidy of low emission vehicles as car importers with more polluting stock are forced to purchase credits from manufacturers who are already selling ZEVs. This should support the more rapid reduction in prices of ZEVs.

Additionally, the government should consider non-financial penalties such as the maintenance of a public register of non-compliant car importers or a ban from government fleet purchases.

Recommendation 7: *Set a penalty of \$200 per g/km of target exceedance.*

Recommendation 8: *Create non-financial penalties for car importers who miss their targets.*

⁸ US Environmental Protection Agency, 'Federal Register / Vol. 88, No. 87 / Friday, May 5, 2023 / Proposed Rules', May 2023, <https://www.govinfo.gov/content/pkg/FR-2023-05-05/pdf/2023-07974.pdf>

Design a FES to encourage lighter, more efficient vehicles

A well designed FES should incentivise the purchase of cars which are lighter, less energy intensive and produce fewer emissions. So while high emissions vehicles can keep being sold, their sticker price should reflect the harms they create. A well designed FES may well result in some vehicles (those which cannot be made to emit less carbon) becoming more difficult to obtain, as automotive importers consider their importation not to be worthwhile within a new regulatory context.⁹ The principle that all vehicles should continue to be available under a FES could put at risk the goals of reducing transport emissions and saving the average family money on fuel.

***Recommendation 9:** Adopt a design approach for the FES which explicitly seeks to reduce the market share of inefficient, heavy and overly large vehicles.*

Multipliers and Super Credits

Super credits and other multipliers should not be included in the design of the fuel efficiency standard as they undermine the strength of the scheme and obscure reporting against results.

- **Super credits weaken overall carbon reduction targets:** The experience from the EU and the US indicates that super credits have the overall effect of reducing the effectiveness of a FES in terms of reducing emissions. The international NGO 'Transport and Environment' calculated the impact of EU flexibilities on the effective FES target: 'Super-credits': -6.3 gCO₂ /km, 'Eco-innovations': -1.3 gCO₂ /km, '95% phase in': -3.4 gCO₂ /km.¹⁰ The effective result of multiplier policies is higher overall CO₂ emissions than would exist without super credits.
- **Reduce potential cost savings and the number of EVs on the road.** The sooner the average Australian owns a ZEV, the greater their personal cost savings on fuel. It is estimated that the impact of flexibilities in the EU scheme, including super credits, has meant 840,000 fewer battery electric cars on their roads.¹¹ Super credits will slow down the cost savings and environmental benefit of the shift to ZEVs over the operation of the scheme.

⁹ Carscoops. "Ford Officially Pulls the Plug on New Focus RS." April 2020,. <https://www.carscoops.com/2020/04/ford-officially-pulls-the-plug-on-new-focus-rs/>.

¹⁰ Transport and Environment, "Car CO₂ review: getting Europe's car market 'fit for 55' on time and affordably T&E recommendations for the review of the EU car CO₂ standards", November 2021, https://www.transportenvironment.org/wp-content/uploads/2021/11/2021_11_Car_CO2_position_paper.pdf

¹¹ Transport and Environment, 'The electric car boom is at risk', 15 November 2021, https://www.transportenvironment.org/wp-content/uploads/2021/11/2021_11_car_co2_report_final.pdf

- **Allow double counting and obscure results:** Because super credits allow double counting of zero emission vehicles, they could lead to a situation where a manufacturer hits their ‘FES target’, but the ‘real world’ average CO2 emissions per km for their fleet is higher. Super credits can therefore be used to obscure the reduction of emissions in real terms by car manufacturers.
- **Create perverse incentives which over time undermine the scheme:** While super credits and multipliers could speed up the introduction of zero emission vehicles in early years, once a market exceeds approximately 20% ZEV penetration, multipliers create perverse incentives which reduce the overall environmental benefit of emissions standards, as manufacturers prioritise cars with multiplier values instead of improving efficiency across their fleet.¹² This is counterproductive and at odds with the aims of a FES.
- **Unnecessary as the global market for ZEVs matures:** The EU has committed to phasing out super credits by 2025.¹³ The US will phase them out in 2024.¹⁴ This reflects the growing body of evidence, outlined above, that they do not contribute to lowering emissions in the long term. While super credits may have served a purpose kickstarting the EV market, they are no longer necessary, and introducing them to the Australian scheme would likely undermine its effectiveness while providing very little benefit.

Recommendation 10: *Super credits should not be used in the FES*

Recommendation 11: *In the case that they are, they must be capped (in terms of emissions reduction able to be claimed), phased out rapidly (ideally by the second year of the scheme operation), and only apply to zero emissions vehicles.*

Recommendation 12: *If super credits are used, they must be fully and transparently reported on - it should be clear to what extent each car importer has used credits to reach their FES target.*

¹² The International Council on Clean Transportation (ICCT), “Integrating electric vehicles within U.S. and European efficiency regulations”, Accessed May 22, 2023,

https://theicct.org/wp-content/uploads/2021/06/Integrating-EVs-US-EU_ICCT_Working-Paper_22062017_vF.pdf

¹³International Council on Clean Transportation, “CO2 emissions from new passenger cars in Europe: Car manufacturers’ performance in 2021”, August 2022,

<https://theicct.org/wp-content/uploads/2022/08/co2-new-passenger-cars-europe-aug22.pdf>

¹⁴Australian Department of Infrastructure, Transport, Regional Development and Communications. "Fuel Efficiency Standard: Cleaner, Cheaper to Run Cars in Australia - Consultation Paper." Accessed May 22, 2023.

<https://www.infrastructure.gov.au/department/media/publications/fuel-efficiency-standard-cleaner-cheaper-run-cars-australia-consultation-paper>.

Off-Cycle and other technology credits

Off-cycle and air conditioning refrigerant gas credits should not be used in an Australian FES. Their technical complexity, and the historical record of car manufacturers engaging opaquely with regulators,¹⁵ creates an unnecessary risk of non-compliance.¹⁶ Many of the technologies that might be eligible for credits are included in modern vehicle designs by default, and so providing credits for them would not help achieve the objectives of the FES.

Recommendation 13: *Off-cycle and similar vehicle enhancement credits should not be used.*

Transparency and governance

Data Management

Accurate data is essential to the success of the scheme. The Australian automotive import industry currently controls data about vehicle sales and emissions as proprietary information, which it sells to the Government regulators and other stakeholders as a revenue generating measure.¹⁷ This should cease to be the case under a fuel efficiency standard. All relevant data regarding vehicle emissions, sales and registrations should be managed and published by Government bodies. This data should be made publicly available, to allow for scrutiny of progress being made on the reduction in emissions from cars - similar to the model used in New Zealand.¹⁸

Recommendation 14: *All data pertaining to a fuel efficiency standard should be under the purview of federal regulatory bodies - and should be made publicly available.*

Commencement

A fuel efficiency standard should be legislated and commence as a matter of urgency. The FES should start on 1 January 2024, with emissions ceilings coming into effect immediately, with the first reporting period for the purpose of fines being 2024. The targets should be legislated rather than implemented through regulation.

¹⁵CarExpert. "Toyota Australia in Court Over Diesel Emissions Defeat Device Claims." Accessed May 22, 2023. <https://www.carexpert.com.au/car-news/toyota-australia-in-court-over-diesel-emissions-defeat-device-claims>.

¹⁶ Union of Concerned Scientists, "EPA Can't Let 'Off-Cycle' Credits Become an Off-Ramp for Automakers", July 2021, <https://blog.ucsusa.org/dave-cooke/epa-cant-let-off-cycle-credits-become-an-off-ramp-for-automakers/>

¹⁷ Climate Works, *National Electric Vehicle Strategy: Climate Works' Submission*, 2022, <https://consult.dcceew.gov.au/national-electric-vehicle-strategy/submission/view/389>

¹⁸ Government of New Zealand, <https://www.transport.govt.nz/statistics-and-insights/fleet-statistics/light-motor-vehicle-registrations-2/>

Recommendation 15: *The FES should be legislated in the 2023 calendar year, to come into effect from 1 January 2024.*

Target Reviews

Annual targets should be set for the period 2024 to 2030 to ensure certainty for suppliers. A review should take place every 3 years. Given the urgent emissions reductions imperative, legislation should be drafted in such a way that targets can only be revised upwards upon review (ie. a 'ratchet' mechanism), and cannot be revised down.

Recommendation 16: *Annual targets should be set for each year from 2024 to 2030 inclusive. Targets should be reviewed every 3 years. Targets can be increased but not decreased.*

Complementary Policies

Addressing equity in the transition to electric vehicles

The FES should be introduced as part of a suite of policies which ensure equitable access to mobility for low-income households. While a FES, and government fleet purchasing commitments, are critical to addressing vehicle affordability, research shows that most EV policy around the world risks reinforcing existing inequality as the financial benefits of the policy accrue to those most able to purchase new vehicles.

To address this - and ensure a more equitable transition to zero emissions - the government should introduce targeted & means tested rebates and access to no interest loans. The government could also consider new innovations in policy such as allocating a percentage of second-hand cars from government fleets to households on lower incomes, or a social leasing scheme to low-income households.

Recommendation 17: *Introduce targeted rebates and no interest loans to support access for lower income families. Consider other additional measures*

Remove restrictions on importation of second hand cars to increase affordability

Over 50% of private vehicle purchases in Australia are from the second-hand market - with the rates higher for younger people and low income earners.¹⁹ Having a thriving second-hand ZEV market will be essential to increasing access to electric vehicles for all Australians, not just those who can afford a brand new car. In New Zealand, where parallel importation is allowed, over half of

¹⁹ CarExpert, "Used cars continue to get cheaper, new research finds," January 2023
<https://www.carexpert.com.au/car-news/used-cars-continue-to-get-cheaper-new-research-finds>.

vehicle sales are parallel imports.²⁰ The Harper Review, and the Australian Productivity Commission, have both recommended that import restrictions on second hand cars should be removed in Australia.²¹

Recommendation 18: *Adopt Recommendation 13 of the Harper Review and remove restrictions on the importation of second-hand cars.*

Harmonise Standards

Australia should consider harmonising regulatory standards with other major markets to minimise barriers to the importation of zero emission vehicles.

Recommendation 19: *Update the Vehicle Type Approval requirements in Australia to allow direct acceptance of type-approved electric vehicles from global major markets.*

End incentives for larger, more polluting vehicles

The FES should be designed to make more efficient cars cheaper by incentivising manufacturers to price them to meet emissions reductions targets. The Government should complement that policy objective by reviewing other taxation and policy levers which currently incentivise a shift to heavier and higher emitting vehicles. This includes fringe benefits tax, and the instant asset tax write-offs for commercial vehicles, which have been linked to increased purchasing of SUVs and other high-emission vehicles.²²

Recommendation 20: *Review and remove or reset all policies which incentivise a shift to heavier, higher polluting vehicles.*

²⁰The Sydney Morning Herald, "Treasure Island: How New Zealand sees Australia's car industry," April 22, 2016, <https://www.smh.com.au/business/consumer-affairs/treasure-island-how-new-zealand-sees-australias-car-industry-20160422-gocj3s.html>.

²¹ Professor Ian Harper, "Competition Policy Review", Australian Treasury, 2015, <https://treasury.gov.au/publication/p2015-cpr-final-report>

²²The Guardian, "Tax perks driving surge in number of SUVs and larger vehicles on Australian roads, experts say," March 23, 2023, accessed at <https://www.theguardian.com/australia-news/2023/mar/23/tax-perks-driving-surge-in-number-of-suvs-and-larger-vehicles-on-australian-roads-experts-say>.