

ACF Submission: Proposed Fuel Efficiency Standard for Light Vehicles

Key Recommendations

- The ACF recommends implementation of a CO₂ fuel efficiency standard in Australia with phase-in starting in 2020 and alignment of this standard over time with the more stringent EU standard.
- In terms of the 3 standards assessed by the Ministerial Forum on Vehicle Emission Standards, the ACF supports the proposed standard of 105g CO₂/km (Target A), which offers the highest level of net benefit of the standards considered.
- The ACF recommends that a more complete explanation be provided for the equivalency standard under the WLTP testing procedure, as the conversion between the two standards is unclear and appears to allow a more lenient standard.
- The ACF strongly supports efforts to encourage more ultra-low emissions vehicles into the market and uptake of those vehicles. The extra credit provided to those vehicles is supported under the proposed standard design. However, caution needs to be taken in the way it is implemented so that the allowance it provides to dirty vehicles does not result in less overall reduction in carbon emissions. The ACF supports annual review of the arrangement outlined.

The ACF is very supportive of a strong CO₂ fuel efficiency standard for light vehicles, and encourages its introduction as quickly as possible. Delay means a lost carbon abatement opportunity that would add millions of extra tonnes of CO₂ to Australia's greenhouse pollution by 2030. Delay would also add billions of dollars in avoidable cumulative fuel costs for households and businesses.

The ACF also supports efforts to improve Australia's fuel quality standards. However, this process should not create a delay in implementing vehicle fuel efficiency standards.

With regards to the proposed design of the fuel efficiency standard, the ACF welcomes the fact that the basis for assessing the proposed targets includes: highest practical contribution to Australia's 2030 carbon pollution reduction target and highest net benefit.

We note that Australia's Paris commitments also require achievement of zero net carbon pollution across the economy before 2050. The transport sector, which currently contributes around 17 per cent

of Australia's greenhouse pollution, must be part of achieving that net zero goal. As a result, the CO₂ standard should play a role in rapidly driving down carbon emissions and incentivising zero emissions vehicles such as electric vehicles.

Of the standards assessed, Target A (105g CO₂/km) is unquestionably the preferred target. The ACF supports a more stringent standard of 95gCO₂e/km by 2025 at the latest, which is technically feasible (evidenced by the fact that it is the EU target), and provides an even larger set of benefits than the standard proposed, including greater CO₂ abatement. This standard would position Australia to align over time with the EU, which is targeting 95 gCO₂/km for passenger in 2021 and 147 gCO₂/km for Light Commercial Vehicles in 2020. We acknowledge that this standard is not currently under consideration, but recommend that the standard implemented continue to tighten over time with the goal of aligning with the EU standard.

The remainder of this document will focus on the proposed fuel efficiency standard, Target A. Comparing Target A (105g CO₂/km) to Target C (135 gCO₂/km) makes the choice very clear. Based on the Government's own cost-benefit analysis, Target A provides significantly larger benefits. Some of these include:

- An additional 41 Mt of abatement to 2030 and 140 Mt to 2040.
- An additional \$8.1 billion in net benefit to 2040.
- Over 2.6 times more fuel savings than Target C to 2030.
- Over 2.5 times more fuel savings than Target C to 2040.

The Government's modelling also shows that the proposed standard will save motorists up to \$500 per year on fuel when implemented, and provide a net benefit of \$13.9 billion to 2040.

The Department of Infrastructure's RIS estimates the additional capital and compliance costs per passenger vehicle for meeting the 105g CO₂/km standard is between \$827 and \$1921 in 2025. The draft RIS found that this upfront cost would be more than offset by the expected fuel savings that would follow.

In addition to the Government's analysis, ClimateWorks Australia's analysis shows that Target A delivers an additional \$6.8 billion in cumulative fuel savings to 2030 and \$16.7 billion to 2040, over the least stringent standard. They found that for an average performing petrol vehicle, this equates to an additional fuel saving of between \$197 to \$295 a year for a driver doing 15,000 km a year and between \$328 to \$493 for a driver doing 25,000 km a year.

Australia's greenhouse pollution is rising (another 1.4% increase in the year to December 2016). The added carbon abatement offered by a higher vehicle emissions standard is significant. Fuel efficiency standards offer low-cost abatement, which should be maximised and Target A has the greatest impact on reducing expenses for Australian households and businesses. In addition, a more stringent standard offers greater health benefits through greater pollution reduction. Target A should be viewed as the minimum acceptable vehicle emissions standard.

How the standard is applied

The design of the standard and its application could be strengthened to transition more quickly. In terms of the timing of the phase in, the current proposal suggests that annual reporting of sales and

efficiency levels commence in 2020 and there is a two-year delay before 65 per cent of vehicle sales must comply with the standard. This delay is unnecessary. Up to 1.2 million vehicles are sold each year in Australia, so a two-year delay would allow over 2 million vehicles to be sold before a standard is in place. These vehicles would remain on the road for years emitting unnecessary amounts of carbon pollution and delaying the benefits available from lower fuel costs. The ACF recommends that the phase-in starts in 2020 rather than 2022.

There are a range of elements to the proposal that ensure choice for consumers, accommodate new technologies and models and makes the overall application of the proposed standard lenient, reasonable and manageable for entities that manage sale and distribution of light vehicles in Australia. Some of these include:

- The phase-in period, which moves from 65% to 100% of vehicle sales over a three-year period.
- The credit/debit arrangement that allows any debit at the end of the year to be made up over the next 3 calendar years before any penalty applies, and for credits to be carried forward or back 3 years to offset debits. This is a very generous arrangement which minimises penalty and should be strengthened over time.
- Provision of extra credits to ultra-low emissions vehicles, which allows an even greater offset potential for higher emission vehicles. This is useful to support ultra-low emissions vehicles, but should be kept under review due to its impact on keeping dirtier vehicles in the sales market (see below).

Adoption of Worldwide Harmonised Light Vehicles Test Procedure (WLTP)

The ACF supports adoption of the WLTP as a step in more accurately testing vehicle emissions and aligning with international efforts to adopt this procedure as a consistent means of measurement. There is some concern that Target A (105g CO₂/km), when converted with the International Council for Clean Transportation's conversion tool results in 118g CO₂/km as an equivalent stringency. This conversion appears to indicate that Australia's real vehicle emissions have been higher than previously indicated because the measurement procedure lacked rigor. This is clearly an issue that is not isolated to Australia and now has a growing international response. However, it does point out again the importance and urgency of implementing fuel efficiency standards to cut back carbon pollution. Further, this conversion result will need to be explained well given the significant difference between 105 and 118g CO₂/km.

Additional credits for ultra-low emission vehicles

The ACF welcomes the effort to encourage the supply of ultra-low emission vehicles, including zero emissions vehicles. However, clean vehicles should not provide a long-term lifeline to particularly dirty vehicles, which need to be phased out. If implemented poorly, additional credits could have a negative effect on overall fleet emissions. As such, annual review to ensure that the standard provides strong incentive to improve the efficiency of all vehicles is supported and encouraged.

In addition, extra credits for ultra-low emissions vehicles should be combined with a set of complementary measures to support the uptake of more of these vehicles into the Australian market. Australia is trailing other parts of the world with its take-up of electric vehicles (EVs). In 2016 there were around 1369 EVs sold, just .1 per cent of sales, and fewer than half were reportedly all electric, with the rest being plug-in hybrids.

Countries around the world are committing to ultra-low emission vehicles, some setting targets to phase out sales of petrol and diesel vehicles. Both France and the UK have recently announced that they will end sales of petrol and diesel vehicles by 2040. India has announced their intention to sell only electric vehicles by 2030. Australia would also benefit from a target to completely phase out petrol and diesel vehicles, and such a move would send a strong signal to the market.

Additional complementary measures that should be considered to support EVs include government fleet purchasing targets, tax rebates, annual registration and stamp duty reductions, implementation of a consistent plug standard and development of appropriate charging infrastructure for plug in EVs, and the exemption of low or zero emission vehicles from the Luxury Car Tax (LCT).

Conclusion

The ACF supports immediate implementation of a CO₂ fuel efficiency standard and alignment of this standard as soon as possible with the more stringent EU standard of 95gCO₂e/km. In terms of the options assessed by the Ministerial Forum on Vehicle Emission Standards, the ACF supports Target A, which offers the highest level of net benefit of the standards assessed and offers clear carbon abatement, health and consumer benefits.

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The ACF community speaks out for a healthy environment, Australia's special places, climate action and for lasting social and economic change.

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