



SUBMISSION

Model Fuel Efficiency Standard

SEPTEMBER 2017

The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

About this submission

This is the Business Council of Australia's submission to the proposed model for an Australian fuel efficiency standard, which was released for comment by the Department of Infrastructure and Regional Development on 7 July 2017.

The Business Council has made two previous submissions during the Ministerial Forum's consultation process on this issue, both of which supported the introduction of a fuel efficiency standard for new light vehicles in Australia.¹ This submission will briefly reiterate the reasons why the Business Council supports the introduction of a fuel efficiency standard for new light vehicles, as well as providing specific comments on the following key aspects of the model that has been proposed by the Department:

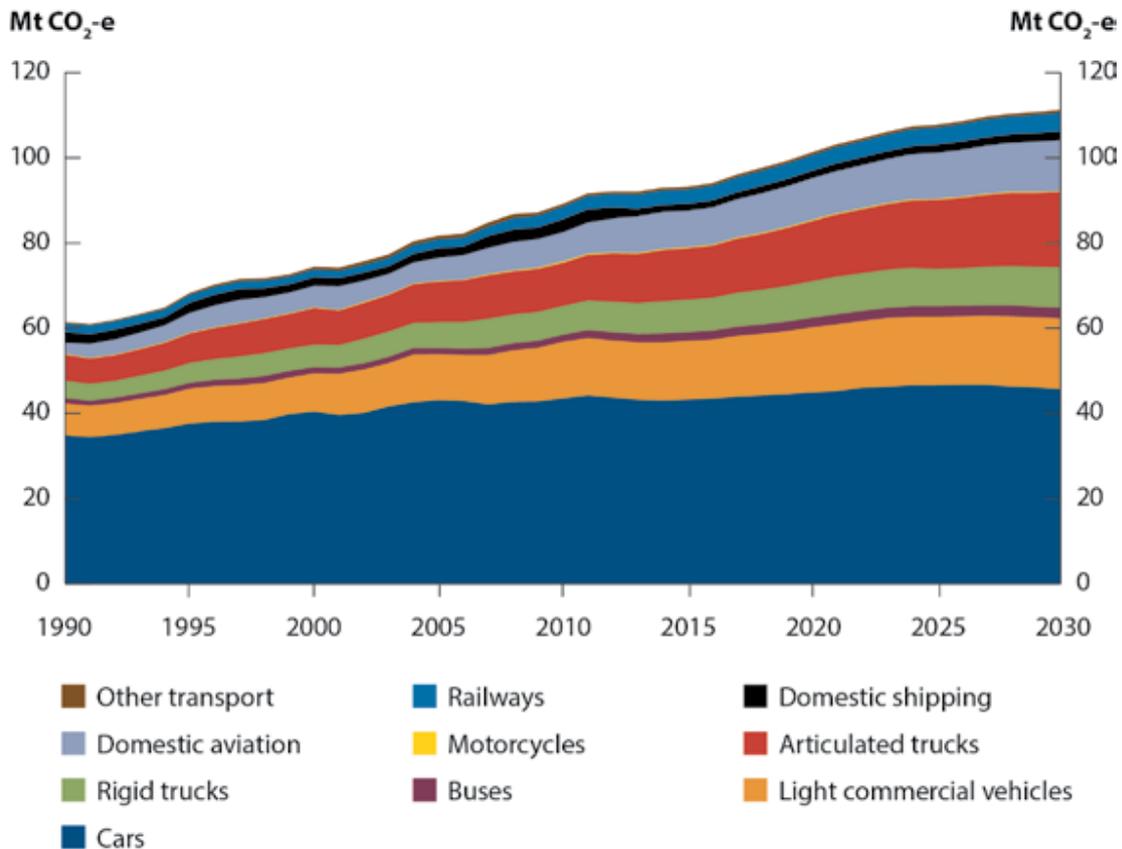
- 1. Choosing the standard that will provide highest net benefit:** A new vehicle emission standard of 105gCO₂/km by 2025 is the appropriate target to choose due to the government's modelling showing that this standard will provide the highest net benefit to the Australian public.
- 2. Improved accuracy of testing is vital:** The adoption of the new Worldwide Harmonised Light Vehicles Test Procedure (WLTP) for measuring vehicle efficiency is important to ensure Australians are confident that the economic and environmental benefits of fuel efficiency standards are being delivered on the road.
- 3. Maximising consumer choice:** It is important that where possible, the model utilises mechanisms that allows vehicle distributors to meet the standards with a reasonable amount of flexibility.
- 4. Australia's fuel quality is not an impediment to fuel efficiency standards:** The introduction of the proposed fuel efficiency standard for new light vehicles can be progressed independent of the ongoing process review Australia's fuel quality and noxious emissions standards.

The case for fuel efficiency standards in Australia

A historic agreement was reached in Paris in 2015 to limit global temperature rise to below two degrees Celsius. To achieve this will require deep reductions in global emissions with most countries, including Australia, eventually reducing their emissions to net-zero. The Australian Government has ratified the Paris Agreement and set a target to reduce Australia's emissions by 26-28 per cent below 2005 levels by 2030.

Emissions in the transport sector have increased by 52 per cent since 1990 to be 93 Mt CO₂-e in 2015. The latest projections from the Australian Government suggest we need to reduce our emissions by around 1000 Mt CO₂-e over the period 2021 to 2030 to meet this target. As can be seen in Figure 1 on the next page, transport sector emissions are projected to be 101 Mt CO₂-e in 2020, an increase of 9 per cent above 2015 levels. Transport sector emissions are projected to be 111 Mt CO₂-e in 2030, an increase of 19 per cent above 2015 levels.

¹ Business Council of Australia, *Submission to Vehicle Emissions Discussion Paper*, April 2016 and Business Council of Australia, *Submission to the Ministerial Forum on Vehicle Emissions*, May 2017

Figure 1: Transport emissions projections, 1990 to 2030²

An initial focus on the light vehicle sector

It is vital that the transport sector contributes to Australia's emission abatement task. While there are a range of policy options available to lower transport sector emissions, an initial focus on reducing emissions from new light vehicles through the introduction of a fuel efficiency standard is warranted because:

- Light vehicle emissions account for more than 60 per cent of emissions in the transport sector (and approximately 10 per cent of Australia's total emissions).
- While fuel efficient vehicles may have a higher upfront cost due to the technological improvements that are required, it is very difficult for purchasers of new light vehicles to assess the benefits of fuel efficiency into their purchasing decisions. As a result, many consumers excessively discount operating cost savings in favour of upfront costs.
- In May 2017 the National Transport Commission found that the average new car sold in Australia emitted 175 grams of CO₂ per kilometre travelled in 2016. That was 46 per cent higher than in Europe, where new cars sold emit only 120 grams of CO₂ per kilometre.³ This same report found that the average emissions intensity for all Australian-made vehicles was 213 g/km in 2016, which is a 2.3 per cent increase when compared with 2015.

² Australia's emissions projections 2016, Commonwealth of Australia 2016'. p. 14

³ National Transport Commission, Carbon Dioxide Emissions Intensity for New Australian Light Vehicles 2016: Information Paper, May 2017

Key aspects of the proposed Model Fuel Efficiency Standard

1. Choosing the standard that will provide highest net benefit

The Department's Regulatory Impact Statements (RIS) estimates the additional capital and compliance costs per passenger vehicle for meeting the target of 105g CO₂/km would peak at \$1921 in 2025, but that the fuel saving per passenger vehicle would be \$519 per year. At a retail fuel price of \$1.30 per litre, Australian buyers of new passenger vehicles would therefore recoup the additional purchase costs within four years due to the significant fuel savings that they will accrue.

The Department's RIS found that the introduction of the target of 105gCO₂/km by 2025 will provide net economic benefits to the Australian economy of \$13.9 billion to 2040, which was higher than the other two options that were modelled in the RIS. The main benefits identified in the analysis was a reduction in fuel costs to the economy of \$27.5 billion and a cumulative reduction in greenhouse gas emissions of 65 million tonnes by 2030 and 231 million tonnes by 2040.

2. Improved accuracy of testing is vital

The Business Council also supports the government's intention to adopt the new WLTP testing procedure as the basis for measuring vehicle efficiency in Australia. A common criticism of vehicle emission standards is the discrepancy that exists between laboratory testing and real world results.⁴ The WLTP is a more accurate and rigorous procedure than the current testing methods that are utilised in Australia. As a result, Australians will be more confident that the economic and environmental benefits of fuel efficiency standards are being delivered on the road.

3. Maximising consumer choice

To maximise the range of vehicles available to consumers, the model that has been proposed that standard will be applied as an attribute based standard. Under this approach, targets are applied via a 'limit curve', which will adjust requirements by the mass of the vehicle sold. The standard will apply on a sales weighted average basis. This enables entities to continue supplying vehicles that exceed the limit curve, provided they can offset these through sales of vehicles that sit under the limit curve. Such an approach maximises consumer choice and is supported by the Business Council.

But to further maximise the range of vehicles available to Australian consumers, further flexibility could be provided by adopting either of the approaches that are used in the European Union (EU) or the United States (US). For instance, the EU standards allow for manufacturers that cannot comply in their own right to 'pool' with another manufacturer to comply as a group. The US standards also allow for the trading of credits between entities to offset debits.

Although such arrangements may increase the administrative complexity of enforcing a fuel efficiency standard in Australia, by allowing such flexibility to entities that will be importing light vehicles into Australia, consumers are likely to benefit via a wider choice of vehicles being on offer in the Australian market.

⁴ ADMARC, 'Real World Driving – Fuel Efficiency & Emission Testing' (prepared for the Australian Automobile Association), November 2016

Furthermore, as all Australian cars from 2020 (when the implementation timetable commences) onwards will be imported from markets including the US and EU, administrative alignment with these jurisdictions is an option that the government should consider further.

Policy recommendation: *The flexibility arrangements that apply in the European Union and the United States, which allow the trading of credits between separate entities or allow pooling between separate entities, should be part of the regulatory vehicle emission framework adopted in Australia.*

4. Australia's fuel quality is not an impediment to fuel efficiency standards:

The Business Council does not support the introduction of stricter fuel quality standards at this point in time. The introduction of stricter fuel quality standards requires further analysis to ensure all of the relevant benefits and costs are properly accounted for. Over time Australia's fuel quality has improved and this will continue as the market for cleaner vehicles will demand this.

While there is some evidence that Australia's fuel quality could pose as an issue for the introduction of Euro 6 standards, there is no corresponding evidence base that demonstrates ultra-low sulfur fuel is a prerequisite required for the introduction of the 105 gCO₂/km fuel efficiency standard that the government has proposed introducing into Australia.

Therefore, the introduction of the proposed fuel efficiency standard for new light vehicles can be progressed independent of the ongoing review of Australia's fuel quality and noxious emissions standards.

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