



ACT
Government

ACT Government Submission

Fuel Efficiency Standard – Cleaner, Cheaper to Run Cars for Australia

Consultation Paper

May 2023

Introduction

The Australian Capital Territory (ACT) Government welcomes the Australian Government's recent Budget announcement of \$7.4 million over 4 years from 2023–24 to develop a Fuel Efficiency Standard (FES). We support the implementation of an ambitious and robust FES that aligns with the current European CO₂ emissions performance requirements and sends a strong signal to the international market. Australia's FES should be mandatory and implemented as soon as possible to support all states and territories to reach their net zero emissions targets.

In October 2022, the ACT Government made a submission to the National Electric Vehicle Strategy consultation paper in support of a stringent FES to incentivise manufacturers to supply modern and affordable electric vehicles to Australia.

Transport emissions currently account for over 60% of total greenhouse gas emissions in the ACT, making it the single largest contributor to emissions. Of these transport emissions, 70% originate from passenger vehicles. For the ACT to achieve its legislated target of net zero emissions by 2045, we will need to significantly reduce our transport emissions over the next two decades.

In July 2022, the ACT Government released the [ACT Zero Emissions Vehicle Strategy 2022-2030](#) which outlines the ACT's strategic vision and ambitious approach to increasing Zero Emission Vehicle (ZEV) uptake. By 2030, the ACT has set a target of 80-90 per cent of all new vehicle sales being ZEVs. The ACT will also seek to phase out the purchase of new light internal combustion engine vehicles from 2035. The ACT already has the highest rate of ZEV ownership per capita in the country and ZEV sales continue to grow strongly.

However, decarbonisation of the total transport fleet will take decades as older vehicles remain on the roads and the supply of ZEVs continues to be constrained to the domestic market. Supply constraints and economic factors are the biggest barriers to ZEV uptake in the ACT. Not only are Australians being sold some of the least fuel-efficient and highest emitting vehicles in the world, they are also being denied access to the most affordable ZEVs on the global market, with only a fraction of the hundreds of EV models available internationally being supplied to Australia. The ACT Government considers the implementation of a stringent FES to be a prerequisite for lowering these barriers and supporting the mass adoption of ZEVs in Australia.

Key recommendations for the development of a FES

Align with EU standards

The ACT Government strongly supports adopting an ambitious and competitive FES that aligns with the current European CO₂ emissions performance requirements; that is, a FES target of 95g CO₂/km for new passenger cars. While there may be specific requirements for the Australian context, there is no need to design the FES from the ground up. Rather, we should adopt the approach established by the European Union (EU) as the leading jurisdiction in efficiency standards. Adopting EU standards, as the United Kingdom (UK) has done following Brexit, has the benefit of vehicles developed for the UK right-hand drive market being compliant with Australian standards.

The ACT Government regards the risk of the standard being too strong to be negligible compared with the risk of the standard being too weak.

Implement a FES as soon as possible

There should be no further delay to implementing a FES, with Australia already well behind the rest of the world as one of the few countries without a FES. The FES should commence as soon as possible when relevant legislation enters into force, with the longer it takes for a FES to commence, the more sharply the standards will need to decline to realise any meaningful reduction in transport emissions. Australia's stock of emissions intensive vehicles needs to be capped as soon as possible to ensure the transition to zero emissions vehicles occurs as efficiently as possible.

A robust and ambitious FES is a prerequisite for an increased supply of ZEVs to Australia and is a key mechanism to ensure their long-term affordability and accessibility. Given supply limitations and economic factors present, the ACT Government recommends the FES target should decrease at a rate consistent with Australia's target of a 43% reduction in emissions by 2030 and national net zero emissions by 2050. Additionally, the ACT Government does not support an opt-in process as voluntary standards do not provide the same incentive to vehicle manufacturers to improve vehicle performance as government regulation.

Set strong emissions targets

The ACT Government supports setting strong emissions targets that provide clear market signals to enable us to catch up with key international markets in the near future, and to ensure that we become globally competitive. Ideally these targets would provide reasonable time to support manufacturers to adopt Australian FES standards and accelerate EV adoption to ensure that states and territories can meet their zero-emission vehicle targets. Australia should seek to follow the same approach as the EU as far as possible, including in determining whether to adopt a mass-based limit curve. Additionally, if the Australian Government decides to implement a FES with multiple targets, the ACT Government would support vehicle classifications in line with the EU.

Certain elements of the design features will need to consider the specific Australian market. In particular, Australian consumer preference favours SUVs over standard passenger cars; SUVs are both higher in number and higher in emissions intensity relative to smaller passenger cars. It is therefore imperative that Australia sees significant reductions in the emissions coming from SUVs, while also encouraging consumer adoption of alternative lower emitting EVs.

Apply strict penalties and limit the use of credits

The ACT Government strongly supports imposing significant penalties for manufacturers who do not meet the FES to ensure adherence. The standard should continue to drive improvements over time, with mechanisms to ramp up stringency as technology improves. The ACT Government also considers that a credit system may weaken Australia's ability to catch up with emissions reduction trajectories of other countries. However, a short-term, simple credit system implemented at the commencement of a FES could enable a stronger FES target to be set and provide an interim transition period for the market to adapt to the new standard.

The ACT Government would welcome the opportunity to comment further on these design features once a FES model and targets are determined.

Update testing procedures to WLTP

The ACT Government supports updating required testing procedures from the outdated New European Driving Cycle (NEDC) to the Worldwide Harmonised Light Vehicle Test Procedure (WLTP). This would ensure tested emissions better reflect the reality of operational conditions. Requiring all new passenger/light vehicles sold in Australia to meet, at a minimum, the Euro 6 emission standards, is a tangible and practical action that the Australian Government can take now to significantly reduce Australia's noxious transport emissions to reduce pollution, improve the health of Australians and indirectly support the transition to lower carbon emissions. The ACT Government considers that Euro 6 standards for light vehicles should be introduced in 2024 or at a date consistent with the availability of refined fuel to support the transition (noting that refined fuel is currently imported to Australia, in addition to the fuel refined locally).

Develop an independent reporting mechanism

It is recommended that the Australian Government develop an independent mechanism for the collection and reporting of vehicle sales data, to ensure effective enforcement of a robust FES and so that progress on ZEV uptake can be monitored. This mechanism should include the number of sales by motive power, the average emissions of vehicles sold, tracked over time, and disaggregated by state and territory. Government reporting of this information will help to track progress against targets and provide certainty to the community.

The ACT Government also supports improved data and reporting on vehicle emissions. The ACT Government welcomes the announcement by the Australian Government to fund the Australian Automobile Association (AAA) to conduct real-world testing of vehicle emissions. We believe that this data is important in increasing the transparency and accountability of Original Equipment Manufacturers (OEM) regarding their claimed emissions for vehicles sold in Australia. We believe that the development and enhancement of such a scheme would support the introduction of vehicle emission standards and a FES.

Provide incentives to support ZEV uptake

Emissions-based registration

From July 2024, the ACT Government will transition vehicle registration from a weight-based scheme to an emissions-based scheme. This is based on the policy objective of lower fees for lower emissions to incentivise the purchase of more fuel-efficient light vehicles and therefore reduce emissions. The existing weight-based registration scheme imposes higher registration fees for heavier vehicles, which can penalise some heavier but lower emitting vehicles like ZEVs. Under the new scheme, registration fees for ZEVs will shift to the lowest fees under the current weight-based scheme. An emissions-based registration scheme will also benefit all lower-emissions vehicles. Existing popular choices – like some low-emissions hybrid Rav4 or Toyota Corollas – will have lower fees under an emissions-based registration scheme.

Fringe Benefits Tax reform

The ACT Government supports Australian Government leadership in exempting eligible zero or low emissions electric vehicles from fringe benefits tax (FBT) and removal of the 5% import tariff. Additionally, we are supportive of the measure that from 1 April 2025, plug-in hybrid electric vehicles will not be considered zero or low emissions vehicles under FBT law.

FBT exemption enables electrification of business fleets and empowers employees who can access salary sacrifice/novated lease arrangements to choose a ZEV. This tax reform also supports increased availability of affordable ZEVs to Australians, as these vehicles will be sold to the second-hand vehicle market at the conclusion of lease periods. The ACT is committed to a fair transition to net zero emissions that supports low-income households and the most vulnerable in our community, and a robust second-hand ZEV market is one aspect of such a transition.

Current FBT arrangements favour heavy payload, heavier emitting vehicles that are petrol/diesel powered over lighter vehicles. This has led to very high adoption of utes, which outnumber sales of standard non-SUV passenger cars. Legislation should be updated to reflect fleet developments and government policy priorities to reduce emissions and remove the incentives underpinning the purchasing of high-emitting ICE vehicles. These vehicles should, in many circumstances, be subject to FBT.

Reforms to luxury car tax threshold

As per the ACT Government's submission to the National Electric Vehicle Strategy consultation paper, we propose that there should be reforms to the luxury car tax threshold. Currently, vehicles above the luxury car tax threshold attract a luxury car tax rate of 33%. This threshold is set separately for fuel efficient vehicles and for other vehicles. For the 2022-23 financial year, the threshold for fuel efficient vehicles is \$84,916, and for other vehicles it is \$71,849. To qualify as a fuel-efficient vehicle, a vehicle must have a fuel consumption that does not exceed 7L/100km as a combined rating under the national road vehicle standards in force under section 12 of the Road Vehicle Standards Act 2018. For petrol fuelled vehicles, the 7L/100km fuel consumption level equates to approximately 160gCO₂/km.

It is proposed that the fuel-efficient luxury car tax limit be changed from the current threshold of 7L/100km fuel consumption level to an emissions-based threshold of 50g CO₂/km. This reform would effectively exclude all pure petrol vehicles from the higher fuel-efficient luxury car tax threshold (\$84,916), meaning that more luxury petrol vehicles would be subject to the 33% luxury car tax. This would help to make electric vehicles more competitive in this segment of the market.

Next steps

The ACT Government would welcome the opportunity to provide additional advice on the proposed design features and targets of the Australian Government's preferred FES model once developed.