

Summary

The NSW Government welcomes the opportunity to comment on the Draft Regulation Impact Statement on national fuel efficiency standards.

Fuel efficiency standards adopted by our international trading partners have demonstrated that this approach can lower costs for consumers and deliver better environmental outcomes. Taking up these opportunities to drive fuel efficiency, like energy efficiency more broadly, can help us grow the economy at the same time we deliver Australia's greenhouse gas emissions reduction targets.

The NSW Government supports the Commonwealth implementing fuel efficiency standards to reduce household and business fuel costs and contribute to Australia's interim and long term emissions savings objectives.

The NSW Government supports the Commonwealth selecting the fuel efficiency target that is expected to deliver the greatest net benefit to the economy.

The NSW Government encourages the Commonwealth to examine more ambitious scenarios in the Final Regulatory Impact Statement.

The NSW Government encourages the Commonwealth to assess the health benefits from the reduction in air pollution in the Final Regulation Impact Statement.

The NSW Government encourages the Commonwealth to:

- maximise flexibility so that vehicle suppliers can innovate and identify the lowest cost strategies for complying with the standard
- minimise the potential for perverse outcomes (e.g. heavier vehicles that could impact on road maintenance, diesel fuelled vehicles that could create more air pollution)
- allow for the potential for changing consumer preferences (e.g. ownership models) and rapidly declining costs of emissions savings technologies (e.g. electric vehicles)
- make the cost of fuel efficiency regulation transparent so that the standard can be evaluated and improved in the future.

NSW supports action to deliver the Paris Agreement

In November 2016, the NSW Government released its Climate Change Policy Framework with an aspirational long-term objective to achieve net-zero emissions by 2050. This framework sets a clear statement of government's intent, commitment and level of ambition and expectations about future emissions constraints that will help the private sector plan and act.

The NSW Climate Change Policy Framework defines the role of NSW Government as

- **Policy:** Implement emission savings policies that are consistent with achieving the Commonwealth's interim and long-term emissions savings objectives and are fair, efficient and in the public interest
- **Operations:** Lead by example to save emissions in government operations
- **Advocacy:** Advocate for Commonwealth, COAG and international action consistent with the Paris Agreement

The Policy Framework commits the NSW Government to developing climate change action plans in 2017 to implement the policy directions in this policy framework. The NSW Government has been consulting on potential actions it could take as part of the Draft Climate Change Fund Strategic Plan. Potential actions include:

- advocate for higher national fuel efficiency standards
- advocate for Commonwealth, COAG and international action consistent with the Paris Agreement

Positive stakeholder feedback has confirmed that advocacy is an important role for the NSW Government and that addressing emissions from the transport sector is a priority.

The transport sector contributes around 19 per cent of NSW greenhouse gas emissions. Increasing the fuel efficiency standards would reduce greenhouse gas emissions from the transport sector.

Recommendation

The NSW Government supports the Commonwealth implementing fuel efficiency standards to place downward pressure on household and business fuel bills and contribute to Australia's interim and long term emissions savings objectives.

NSW supports the target with the greatest net benefit

One of the objectives of government action identified in the Draft Regulation Impact Statement is *"to mitigate the risks of climate change and help achieve Australia's 2030 greenhouse gas reduction target by reducing greenhouse gas emissions from transport fuel use... in the **most cost effective way**"*

The NSW Government suggests the Commonwealth carefully consider how it assesses cost effectiveness of different targets. For example, a strict interpretation of cost effectiveness could lead to a less ambitious target for light vehicle fuel efficiency with a higher Benefit Cost Ratio (1.97 for Target C compared to 1.86 for Target A).

However, a less ambitious scenario may also:

- deliver a lower net economic benefit (\$5.8 billion for Target C compared to \$13.9 billion for Target A)
- contribute less emissions savings to Australia's 2030 targets

- require less cost effective emissions savings policies to meet Australia's 2030 target, increasing the overall cost to the economy.

Recommendation

The NSW Government supports the fuel efficiency target that is expected to deliver the greatest net benefit to the economy.

NSW supports assessing more ambitious scenarios

The cost benefit analysis estimates that the most ambitious scenario (Target A) delivers a significant net benefit to Australia, with a negative cost of abatement (-\$48.7 per tCO₂e).

These results indicate the transport sector may have a greater potential contribution to Australia's 2030 target at a lower cost than some alternatives (e.g. the Emissions Reduction Fund, the Renewable Energy Target).

The trajectory for the European Union's fuel efficiency standards for passenger vehicles could see a fleet wide average of between 68 to 78gCO₂e per km by 2025. Canada has set draft long term light vehicle fuel efficiency targets for 88gCO₂e per km in 2025.

The trajectory of the European Union and Canadian fuel efficiency standards suggests that significantly more ambitious targets may be technically feasible in Australia and could be assessed as part of the Final Regulation Impact Statement.

Recommendation

The NSW Government encourages the Commonwealth to examine more ambitious scenarios in the Final Regulatory Impact Statement.

NSW supports assessing health benefits

We acknowledge the difficulty in estimating the incremental change in air pollutants from increased fuel efficiency at the same time as considering improved vehicle emissions and fuel quality standards.

However, fuel savings on the scale estimated in the Draft Regulation Impact Statement would be expected to deliver significant air quality improvements. Fuel efficient vehicles typically generate less noxious emissions, and can reduce health impacts.

Recommendation

The NSW Government encourages the Commonwealth to assess the avoided health impacts from a reduction in air pollution in the Final Regulation Impact Statement.

NSW supports supplier and consumer led initiatives

The Draft Regulation Impact Statement identifies different technical design features for a fuel efficiency standard.

The NSW Government encourages the Commonwealth to consider how best to:

- maximise flexibility so that vehicle suppliers can innovate and identify the lowest cost strategies to comply with the standard
- minimise the potential for perverse outcomes (e.g. heavier vehicles that impact on road maintenance, diesel vehicles that create more air pollution)

- allow for the potential for changing consumer preferences (e.g. ownership models) and rapidly declining costs of emissions savings technologies (e.g. electric vehicles)
- make the cost of fuel efficiency regulation transparent so that the standard can be evaluated in the future.

For example, this could include a standard with an annual target for the overall light vehicle fleet (e.g. no sub targets for market segments), limited differentiation by vehicle size (e.g. an attribute limit curve with a very low gradient) and an ability to recognise effort across years and offset between vehicle suppliers (e.g. credits with trading, banking and borrowing).

The table below shows the NSW Government's responses to each of the questions in the Draft Regulation Impact Statement.

Table 1 Response to the Draft Regulation Impact Statements questions

Question	NSW Government Response	Rationale
<p>Question 1 -What parameter (CO₂ emissions or fuel consumption) should be used for an Australian fuel efficiency standard and why?</p>	<p>We prefer a CO₂ parameter.</p>	<p>As noted in the RIS, a standard based on fuel consumption may provide a strong incentive to increase sales of diesel vehicles to achieve the target.</p> <p>This has been the case in Europe over the past 15 or so years, with the market share of diesel vehicles approaching 50%.</p> <p>Sales of diesel vehicles have directly contributed to the very significant air quality challenges facing many European cities today.</p> <p>Diesel particulate has been identified by the WHO as a known human carcinogen.</p>
<p>Question 2 - How should a vehicle's efficiency for the purposes of an Australian fuel efficiency standard be assessed and why?</p>	<p>We suggest using gCO₂ (tailpipe emissions) per km over standard test cycle (WLTP & RDE) for each vehicle model.</p>	<p>Requiring a gCO₂ (tailpipe emissions) per km would harmonise Australia with EU or other countries.</p> <p>Using a full fuel cycle metric would penalise vehicles with the potential for zero emissions (electric and fuel cell vehicles).</p>
<p>Question 3 - How should a sales weighted average target be applied in Australia and why?</p>	<p>We suggest a fuel efficiency standard apply to individual vehicle suppliers in Australia, on a sales weighted fleet average, and that it allows trading between suppliers and banking and borrowing of credits from over or under compliance in early years.</p>	<p>This will encourage suppliers of relatively inefficient vehicles, to sell very efficient or near zero emissions models or to partner with other suppliers to get their fleet average down.</p> <p>This may result in more electric and fuel cell vehicle models being available to consumers.</p>

Question	NSW Government Response	Rationale
<p>Question 4 - If an attribute based standard is adopted, which attribute should be adopted in Australia and why?</p>	<p>If an attribute based standard is adopted, we suggest using a low gradient limit curve based on vehicle footprint.</p>	<p>The purpose of an attribute based standard is to ensure the standard accounts for a vehicle's consumer utility.</p> <p>It is not clear that vehicle footprint or mass is a good indicator of utility. However, there may not be any other standard metrics available.</p> <p>A fuel efficiency standard based on mass may penalise suppliers of lightweight vehicles and may lead to the vehicle fleet becoming heavier with potential impacts on safety and road maintenance.</p> <p>If an attribute based standard is adopted, it is important that it does not provide a strong incentive to provide larger or heavier vehicles and that it is monitored and periodically adjusted.</p>
<p>Question 5 - How should a fuel efficiency standard be applied to each light vehicle category and why?</p>	<p>We suggest there be no market segmentation. All passenger, SUV and light commercial vehicles, up to 3500kg included in a single fleet average target.</p> <p>Measure CO₂ g/km over standard test cycle (WLTP & RDE).</p>	<p>Using a single target for all light vehicles may simplify administration of the standard and would leave it to vehicle suppliers to identify the lowest cost pathways for compliance.</p> <p>A sales weighted average method harmonises with EU and US.</p>
<p>Question 6 - If SUVs are subject to a different target to passenger cars, how should SUVs be defined, and why?</p>	<p>We suggest there be no market segmentation. All passenger, SUV and light commercial vehicles, up to 3500kg included in a single fleet average target.</p>	<p>This may remove an incentive to suppliers to reclassify vehicles to achieve a desired fleet average.</p> <p>The only way to reduce the fleet average is to sell more fuel efficient vehicles.</p>
<p>Question 7 - How should targets for a fuel efficiency standard be phased in and why?</p>	<p>We suggest that targets are phased in from 2020 to 2025 progressively increasing in stringency.</p> <p>We suggest a fuel efficiency standard apply to individual vehicle suppliers in Australia, on a sales weighted fleet average, and that it allows trading between suppliers and banking and borrowing of credits from over or under compliance in early years.</p>	<p>This may allow suppliers to continue selling less fuel efficient vehicles and recover their product development costs for these vehicles.</p> <p>While at the same time developing and supplying increasing numbers of fuel efficient vehicles to the market such as hybrids or full electric vehicles.</p>
<p>Question 8 If annual targets are adopted, what targets should apply in each year for each segment and why?</p>	<p>We suggest that targets are phased in from 2020 to 2025 progressively increasing in stringency.</p> <p>We suggest a fuel efficiency standard apply to individual vehicle suppliers in Australia, on a sales weighted fleet average, and that it allows trading between suppliers and banking and borrowing of credits from over or under compliance in early years.</p> <p>We suggest there be no market segmentation. All passenger, SUV and light commercial vehicles, up to 3500kg included in a single fleet average target.</p>	<p>This will allow manufacturers to progressively develop replacement low CO₂ models within their vehicle line-up.</p>

Question	NSW Government Response	Rationale
<p>Question 9 - If a percentage phase in is adopted, what percentage should apply in each year and each segment, and why?</p>	<p>If annual targets with banking and borrowing are not adopted, we suggest the Commonwealth consider a phase in to enable suppliers to add fuel efficient models to their vehicle line-up each year progressively replacing old models.</p>	<p>This would allow for lessons learnt during developing technology for the early models to be incorporated in the latest models and therefore the later developed models would have larger CO₂ reductions. Alternatively, banking and borrowing of credits from over or under compliance would allow vehicle suppliers to devise their own strategies for phasing in new technology.</p>
<p>Question 10 - What flexibility arrangements should be allowed under an Australian fuel efficiency standard and why?</p>	<p>We suggest a fuel efficiency standard apply to individual vehicle suppliers in Australia, on a sales weighted fleet average, and that it allows trading between suppliers and banking and borrowing of credits from over or under compliance in early years.</p>	<p>This may allow suppliers to continue supplying some special purpose fuel inefficient vehicles, provided the fuel consumption is offset by a fuel efficient model.</p> <p>This may encourage suppliers to subsidise the cost of very efficient or zero emission vehicles like plug-in hybrids and full electric vehicles. This may encourage larger volume sales of these types of fuel efficient vehicles, to offset the higher fuel consumption of the other vehicle models in the fleet mix.</p>
<p>Question 11 - What, if any, credits should an Australian fuel efficiency standard adopt to further encourage the supply of more efficient vehicles, and why?</p>	<p>If on road tests are not conducted, we suggest credits are awarded to top vehicle technologies that would result in real world fuel savings. This could include aerodynamic improvements and air conditioning energy efficiency.</p>	<p>Some improvements can provide real fuel savings but are not captured by dyno testing. We suggest the benefits from these improvements are verified through on-road testing.</p> <p>Complementary policies outside of standards may be better mechanisms to encourage electric vehicles and other emerging technologies than 'super credits' under the fuel efficiency standard.</p>
<p>Question 12 - Which entities should be required to comply with a fuel efficiency standard, and why?</p>	<p>We suggest the entity responsible for distribution and management of sales in Australia is the appropriate point for compliance.</p>	<p>The vehicle dealer, purchaser or owner may not have the knowledge, skills or resources required to significantly change fuel efficiency.</p>
<p>Question 13 - What concessional arrangements should be offered to low volume suppliers under an Australian fuel efficiency standard and why?</p>	<p>Special purpose vehicles such as mining, farm or forestry equipment, forklifts, ambulance, rescue vehicles, mobile homes and some other vehicles with concessional registration could be exempt from a sales weighted average.</p>	<p>Special limited production or special purpose vehicles may be exempt but may need to be evaluated on a case by case basis.</p> <p>The use of CO₂ g/kWh efficiency metric may be an option for these vehicles.</p>
<p>Question 14 - What penalties should be applied to entities that failed to comply with a fuel efficiency standard and why?</p>	<p>To be effective, we suggest the penalty would need to be greater than the cost of fuel efficiency improvement.</p> <p>This could be based on total numbers of light vehicles sold during the year multiplied by the expected lifetime additional fuel consumption as a result of not meeting the fuel efficiency standard.</p>	<p>If it becomes obvious that a supplier's fleet average target will not be met (e.g. due to large sales of fuel inefficient vehicles) they could vary the sales price of the fuel efficient models to increase their sales.</p> <p>This would provide a price signal to meet the target. This could also lead to a market based subsidy for near zero emissions vehicles.</p>