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Senate Standing Committees on Economics
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To Whom It May Concern,

Climateworks Centre submission on Inquiry into Treasury Laws Amendment (Electric Car Discount) Bill 2022 [Provisions]

Climateworks Centre welcomes the opportunity to respond to the Inquiry into Treasury Laws Amendment (Electric Car Discount) Bill 2022 [Provisions]. Climateworks develops expert, independent advice and solutions to assist the transition to net zero emissions for Australia, South-east Asia and the Pacific. A non-profit organisation, Climateworks was co-founded in 2009 by the Myer Foundation and Monash University, and works within the Monash Sustainable Development Institute.

Context

Australia has committed to the Paris Climate Agreement goals of reducing CO2 emissions to limit global average temperature rise to well below 2°C and pursuing limiting to 1.5°C. In October 2021, Australia committed to achieving net zero emissions by 2050, in line with global efforts to meet the Paris Agreement. Additionally, Australia signed the 2021 Glasgow Breakthrough on Road Transport, which states that zero-emission vehicles need to be 'the new normal,' and 'accessible, affordable, and sustainable in all regions by 2030-35' (UK Presidency 2021). Setting and realising higher electric vehicle (EV) adoption targets, aligned to a 1.5°C pathway, will not only help meet these commitments and avoid the worst impact of climate change, but also ensure Australia is realising the full benefits of the EV transition. This includes vehicle running cost savings for households and businesses. Climateworks' scenario analysis shows that Australia can still achieve trajectories compatible with the Paris climate goals, however those trajectories involve very strong emissions reductions this decade, particularly in the transport sector.

EV Uptake

Climateworks' modelling of a decarbonisation scenario aligned with limiting global temperature rise to 2°C included EVs making up 50% of new car sales in 2030. Additional Climateworks analysis of a 1.5°C pathway included EVs making up 76% of new car sales by 2030 (ClimateWorks Australia 2020a,

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2020b). The International Energy Agency (IEA) also recommends ending sales of ICE vehicles by 2035 for the world to meet net zero emissions by 2050 (IEA 2022).

Currently, Australia lags behind global EV uptake. EV uptake is tracking at an average 10% globally and as high as 72% in Norway (IEA 2022). Meanwhile in Australia, new EV sales are growing, but very slowly: they increased from 0.8% of new cars in 2020 to 2% in 2022 (Electric Vehicle Council [EVC] 2022). Federal government sales projections show that, at the current rate, EVs will make up just 26% of the total sales in 2030 (Department of Industry, Science, Energy and Resources 2020).

Australia is not on track to meet existing targets. Aggregating existing f state and territory targets shows Australia has a virtual target of 46% of new cars being EV by 2030, well above Australia's current trajectory. Achieving existing EV targets, and even lifting Australia's ambition to a higher target, is possible with the right national policies in place. This includes policies to reduce the cost of EVs and boost supply to the Australian market.

EV Policy

Australia is missing key Federal policies that can reduce the sticker price of EVs to stimulate demand and thereby support EV uptake, including for fleet uptake. Policy work is also needed to identify and implement key opportunities to reduce upfront EV costs for all vehicles, not only fleet vehicles. This is critical for boosting demand and uptake as, currently, the upfront capital cost of EVs is a barrier to uptake and price parity with internal combustion engine (ICE) vehicles is not expected until around 2027 (IEA 2022). While total cost of ownership is on par or lower than an ICE vehicle, the high capital cost remains a barrier (ClimateWorks 2019).

Reducing costs through reducing fringe benefits tax (FBT), is a critical shift at this juncture in Australia's EV transition, as it reduces upfront costs and can therefore help business and government fleets to transition to EVs. This is particularly important for stimulating fleet procurement, a powerful lever to boost EV uptake which has flow-on effects for injecting supply to the second-hand market. Fleets made up 50% of annual new vehicle sales in 2020 (National Transport Commission 2020). Transitioning fleet can signal the creation of a major market for EVs in Australia. The shift to EV fleets presents opportunities for employee and community education, overcoming misconceptions and demonstrating the significant benefits of electric vehicles. Later in their lifecycle, these fleet vehicles would contribute to a successful second-hand market that makes EVs more accessible and affordable to more Australians. Both government and corporate fleet vehicles flow through to the second-hand market and provide more affordable options to all households (EVC 2021). To provide clear consistent guidance, taxation changes should be coordinated at the federal level.

Recommendations

Climateworks broadly supports the proposed bill amendments.

"The bill amends the Fringe Benefits Tax Assessment Act 1986 to exempt from fringe benefits tax cars that are zero or low emissions vehicles held by the provider and used by or made available for private use of employees."

Zero emissions vehicles provide the greatest benefits to the environment through reducing transport emissions and reducing costs to consumers. Through exempting zero emissions vehicles from FBT,

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price barriers for EVs can be reduced, EV uptake supported and emissions reduction outcomes achieved. Climateworks supports the full-suite of specific recommendations outlined in the *Race for 2030 CRC Business Fleet* report (Mortimore 2022).

Climateworks supports the benefit applying to:

- Vehicles when the value of the car at the first retail sale was below the luxury car tax threshold for fuel efficient vehicles (\$84,916 for 2022-23).
- Vehicles that are first held and used on or after 1 July 2022, and the application of the law is retrospective.

The amendment is proposed to “*apply to battery electric cars, hydrogen fuel cell electric cars and plug-in hybrid electric cars.*” Climateworks acknowledges that while a future zero-emissions transport system may also include fuel cell vehicles and other technology, at this point in time battery electric vehicles are the most mature and cost-effective technology for light passenger vehicles. Hybrid electric vehicles are not zero emissions vehicles and therefore should not be considered a long term technology for a zero-emissions future.

Proposed changes also state that “*The exemption will remain in effect as an ongoing basis and reviewed after three years, assessing the success of EV uptake.*” Climateworks supports the need for regular reviews to ensure these changes are having the desired impact on increasing EV sales. It should be clarified that vehicles purchased in the next 3 years will be able to access the FBT exemption for the full three subsequent tax years to ensure certainty for purchases. RACE for 2030 has modelled the cost benefits of applying FBT exemptions for three tax years. In future reviews, consideration should be given to narrowing the focus of FBT reductions to zero emissions vehicles only, to incentivise the best available technology for targeting emissions reduction.

As Australia accelerates action on EV uptake, we can draw from successful EV policies around the globe. Reducing price barriers through structural mechanisms such as FBT exemptions, is a strategic policy move with high impact fleet transition opportunities. These measures should sit within a broader policy package we have outlined in our recently released report ‘*Accelerating EV Uptake: Policies to Realise Australia’s EV Potential*’ (attached), to position Australia for a smooth and successful EV transition.

If Australia is to contribute to global efforts to avoid the worst impacts of climate change, and meet the targets to which it is committed, action on transport is vital to reducing emissions. This is especially urgent given the window to keep global warming within 1.5 degrees is still open, but narrowing.

Thank you for taking the time to consider our submission. We would welcome an opportunity to brief your team if you would like to explore our responses in further detail.

Yours sincerely,

Rachel Lynskey
Project Manager (Transport), Climateworks Centre

Note: references referred to in our submission are set out at the end of our attached report.

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