

# BRIEFING

## Road Charges for EVs



I am writing to express our concern and opposition to your government's proposal to introduce a further tax on electric vehicles. This policy will reduce the opportunity for consumers in your state to access the benefits of e-mobility.

The proposal to implement this new tax would make Victoria and Australia the world's first market to create a net financial disincentive for electric vehicle uptake.

While the COVID-19 pandemic has presented enormous challenges, it has also provided an opportunity for governments to reset and think about how we want to build back better.

Supporting greener and cleaner transport is one way that governments can achieve this and EVs provide an opportunity to reduce the carbon impact of transport, as well as supporting our economy through new jobs and technological innovation.

However, EV adoption in Australia is in its infancy and now is not the time to introduce new charges on a burgeoning sector. The briefing attached to this letter provides details relating to misconceptions and factors requiring attention in the design of an early and exclusive usage-based tax on EVs.

As we will demonstrate, government's priority should be in establishing an ambitious framework to support EV uptake before considering measures to introduce new charges.

### **EVs provide significant policy benefits and governments around the world are providing strong incentives to encourage uptake**

The fast adoption of electric vehicles would provide enormous public policy benefits to the people of Australia. Today, they are already a cleaner form of transport than internal combustion engines, and, as our energy mix continues to evolve, provide the only pathway to a zero-emission transport future.

They reduce our reliance on imported oil and will improve urban amenity as they are quieter and do not pollute local communities. The future of transport is 'shared, electric and automated'. Electrification is a crucial steppingstone to future technology such as automated vehicles.

Governments around the world are providing strong incentives, including financial rebates of \$10,000 - \$15,000AUD, annual tax exemptions, non-financial benefits, while additionally setting bold targets such as the United Kingdom's ban on internal combustion engines by as soon as 2030.

These policy measures encourage consumer adoption and business investment in these markets. Unsurprisingly, markets with these incentives, see a higher percentage of new sales go to electric vehicles, averaging between 3-5% across major markets in 2019, rising to 5-15% during 2020.

Unfortunately, in Australia, the lack of policy certainty has restricted similar investments being made on our shores. It is one of the reasons we do not see the choice of electric

vehicles available to others – including those that are more affordable – in our market. As a result, electric vehicles made up only 0.6% of new car sales in Australia in 2019, well below other OECD countries.

Implementing a road user charge for EVs at this time would reduce consumer demand and discourage businesses from investing in our market.

Today, the barrier of high upfront costs is somewhat, but not fully, offset by the lower operating costs. Taxing ongoing costs removes the only natural financial benefit to electric vehicles, particularly as governments here have refused to provide upfront incentives.

The charge would be particularly salient as users would have to physically submit annual odometer readings or install a device at the time of purchase. Suggestions that road use could be measured by GPS tracking on electric vehicles has serious implications on Australians' right to privacy.

An EV tax will lead to less choice for consumers, as vehicle manufacturers send their electric vehicles to supportive jurisdictions. It will also cost our economy significantly in terms of new jobs and investment.

Importantly, an EV tax sends an unequivocal signal to Victoria does not support investment in technology and innovation in e-mobility.

### **This initiative will have unintended consequences for the Victorian Government's commitment to achieving net zero emissions by 2050**

To achieve zero emissions in the road transport sector, given the average 15-year lifespan of a car, you would need the last ICE sold in Victoria to be in 2035. That means the Victorian Government has only 15 years to get EVs from 0.6% of new sales to 100%.

Prior to the announcement of this tax, Victoria was not on track to meet this target. As the world's first market to discourage EV uptake, this target will become unachievable.

With transport accounting for a major source of Victoria's emissions, this threatens the government's ability to deliver on its emissions reduction goals.

### **Electric Vehicles already pay more in tax today than comparable internal combustion engine vehicles over their lifetime**

In announcing this new tax, government representatives incorrectly asserted that electric vehicles are not paying for their use of the road network.

Research conducted by EY on our behalf finds that electric vehicles today pay more in tax than comparable internal combustion engine vehicles throughout their lifetime, while additionally providing economic benefits and avoid social costs ultimately borne by taxpayers.

### **Government should not implement a RUC for EVs at this early stage of adoption**

While the EVC supports efforts to fund transport, adding a new tax on the use of EVs would have a highly negative impact at this early stage of market transition.

Timing is critical. Overseas, governments have taken significant steps to support the uptake of EVs and are, in some cases, now considering future options for road user charges. Australia cannot skip the support and move straight to increased taxes.

The EVC recommends the Victorian Government shelve its plans for a new tax on EVs and instead engage in a consultative process to identify ways to encourage uptake.

I hope that in the coming weeks we can work more constructively together to grow the uptake of electric vehicles in Victoria and the dynamic industry that supports it.

Yours sincerely,

Behyad Jafari  
Chief Executive Officer

**A road user charge applied exclusively to EVs is not an equivalent to fuel excise**

Implementing a road user charge exclusively on electric vehicles can only lead to an unfair situation where EV drivers pay more in operating taxes than the fuel excise contribution of internal combustion engine vehicles.

Fuel excise allows for consumers to consider more efficient options to reduce their cost and tax burden. Under this scheme, a luxury SUV, Lexus RX 450h will pay less in fuel excise than the road charge applied to an electric vehicle.

The table below demonstrates that fuel efficient petrol vehicles contribute as little as 1.4c / km in fuel excise. While the average new car sold in 2019 pays 3c / km.

The suggested tax for electric vehicles is 2.5c / km.

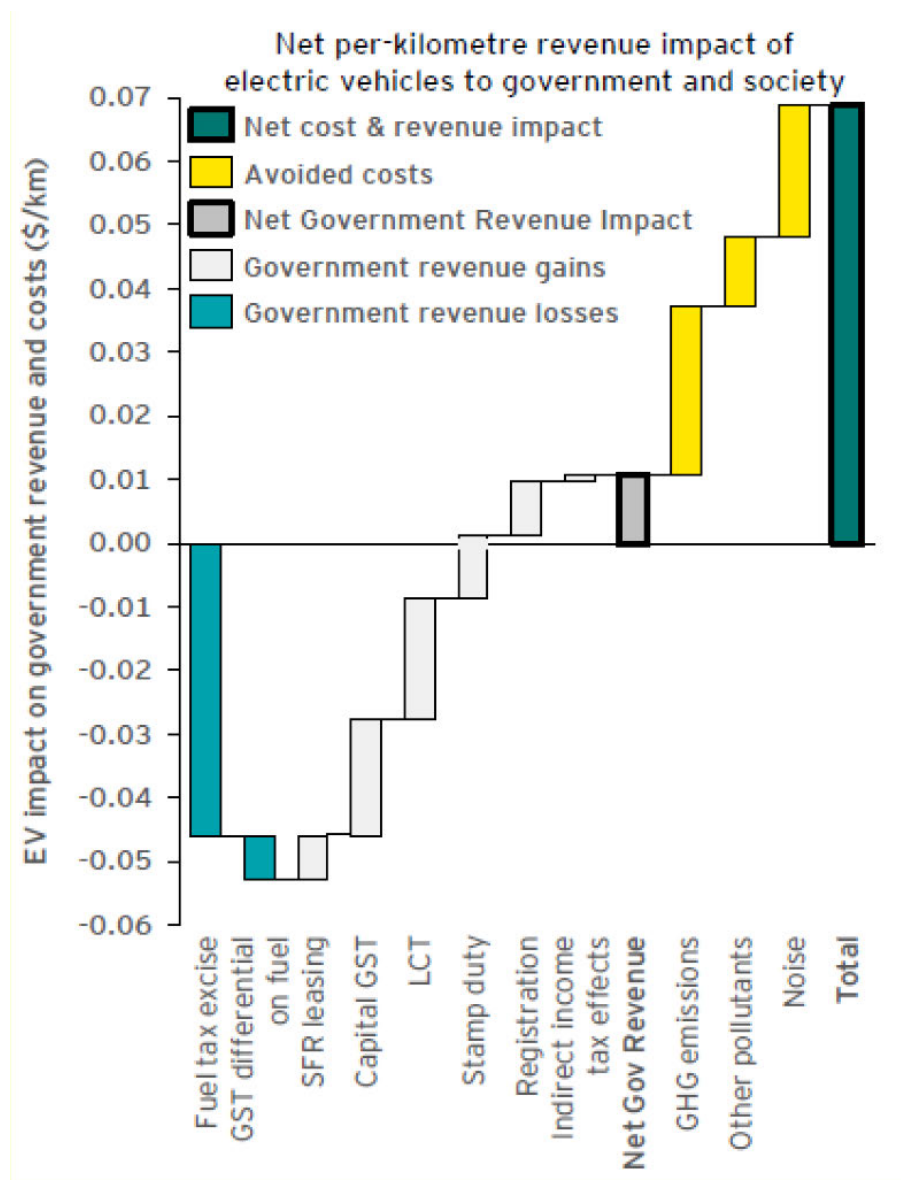
Vehicle	L/100km	Fuel excise equivalent (c/km)	Annual @ 15,000km (\$)
Average new car	7.19	3	450
Lexus RX 450h	5.7	2.4	360
Toyota Prius	3.4	1.4	210
VIC EV Tax	0	2.5	375

### The ‘unfairness’ argument doesn’t stack up as EVs pay more in tax in their lifetime than a petrol/diesel vehicle

The assertion that it ‘unfair’ for an electric vehicle to use roads without paying fuel excises refuses to acknowledge the cost benefit of electric vehicles for health sector, the economy, and the environment.

Research from EY shows that EV drivers pay more in tax throughout their lifetime, than a petrol/diesel vehicle, including its contribution to fuel excise.

This research has found that: *The overall impact on government is an increase in net revenue of \$0.011/km, and the overall externality impact to government and society is a benefit of \$0.058/km, contributing to an overall net benefit of \$0.069/km (\$8,763/vehicle/year) for each km travelled by EV versus an ICEV.*



**Australia is behind other nations on EV incentives, and this impacts uptake**

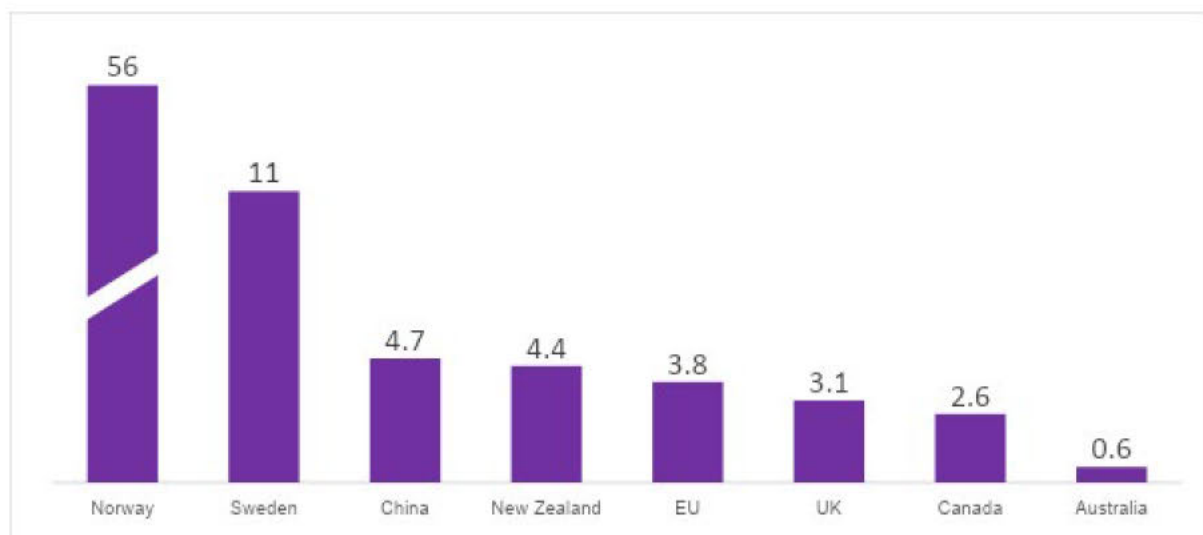
Australia’s position as a global laggard in electric vehicle uptake and model availability should be considered when advocating for EV road charging.

The EV market has been supported globally through a range of measures, including tightening fuel efficiency standards, consumer purchase incentives, funding for charging infrastructure and a range of tax exemptions and non-financial incentives. Globally these incentives arrive at ~\$10,000AUD, supplemented by sub-national incentives and tax exemptions.

**G7 national EV purchase incentives**

Market	Incentive (local currency)	~\$AUD
Canada	\$5,000	\$5,000
France	€7,000	\$11,000
Germany	€6,000	\$10,000
Italy	€6,000	\$10,000
Japan	¥400,000	\$5,000
UK	£6,000	\$10,000
USA	\$7,500 USD	\$10,000
Australia	-	-

The lack of policy certainly restricts private sector investment in providing EV models, charging infrastructure and related services, which has already caused Australia to fall behind in the global transition to electric vehicles. In 2019, global average market share for new electric vehicle sales was between 3-5%, now rising to 5-15% in 2020. In Australia that figure is 0.6%.



The resulting uncertainty has restricted investment in e-mobility in Australia. Noted in the comments above, the supply of vehicles in the mid-tier segment are particularly limited. There are ~317 EV models available globally, with only 28 for sale in Australia.

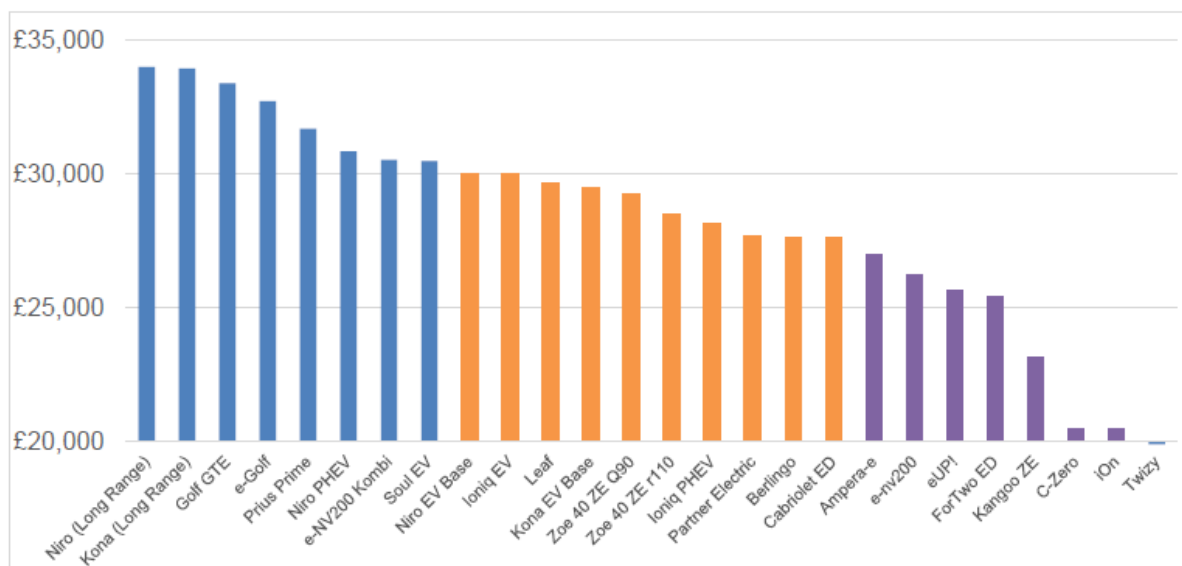


Figure 2: EVs available in UK <£35,000 (before subsidy)

The United Kingdom, which is a major right-hand drive vehicle market that influences product availability in Australia, has 26 EV models available priced under £35,000 before subsidies. In Australia there are only seven models available priced under an equivalent \$60,000AUD.

This is also impacted by the limited supply of these vehicles, with waiting times for new EVs lengthened as products are delivered to more supportive markets. The product allocation decisions of these companies will only be negatively impact by further charges on EVs.

### Price parity will likely be delayed in the Australian market if new taxes are introduced and reduce demand

The line of thinking that since EV prices will fall, uptake will rise regardless of government policy and an early tax is unjustified.

As we have demonstrated, lower priced EVs do not come to the Australian market today due to the absence of government regulations and supportive policies. This point has been stated repeatedly by the automotive sector.

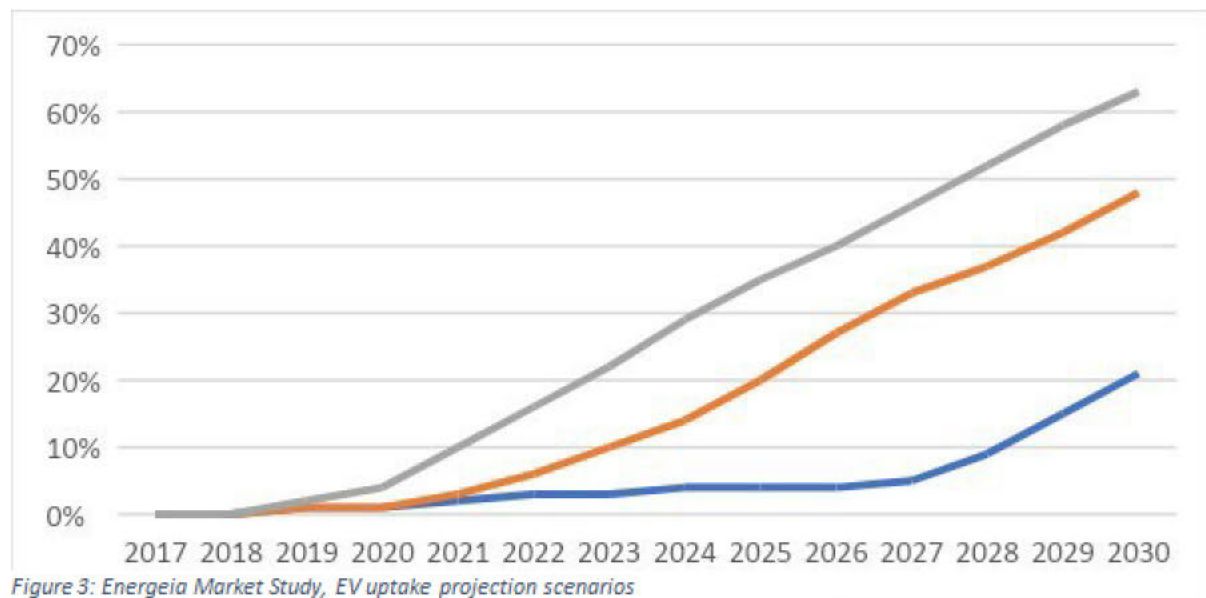
China's biggest car maker SAIC has criticised Australia's "unique" lack of policy incentives for the electric car industry, saying the policy black hole is preventing a healthy market for environmentally friendly vehicles from developing.<sup>10</sup>

Kia Motor Company, has explained its indefinite delay in bringing the award winning e-Niro to Australia, "KMC policy is e-Niro goes to countries that have CO2 regulations and have legislation in place, that's the issue with us in relation to getting e-Niro."<sup>11</sup>

Toyota Motor Corporation Australia has commented on its delays bringing lower priced EVs to the Australian market, "I don't think it's people-readiness, I think it gets down the infrastructure, and I also think it gets down to affordability, and that's really critical here."<sup>12</sup>

BMW Australia "This is the technology that all major manufacturers have subscribed to, that the majority have invested in, planned for, committed to and embraced — except Australia"<sup>13</sup>

In a report commissioned by Commonwealth Government agencies ARENA and CEFC, Energeia demonstrates the impact of business-as-usual in Australia, compared to policy actions in various scenarios.<sup>14</sup> It finds that Australia's EV market stagnates over seven to nine years, compared to global markets, due to policy inaction.



It should be noted that since this study was published, other markets have increased their policy support for EVs resulting in lost investment for Australia and we are currently falling short of the low or business as usual projections.



**International jurisdictions investigating RUCs have already provided significant incentives for EVs, Australia can't skip step one**

There are several international jurisdictions that have begun introducing road user charging globally. These jurisdictions should be congratulated on the policy mechanisms and financial incentives that have enabled them to reach a significant proportion of electric vehicles on their roads.

- New Zealand has a national Road User Charge that is taxed on top of Fuel Excise, but **EVs are exempted**.
- Fuel efficiency regulations have been in place for decades
- A range of electric vehicle incentives, including upfront cost incentives and reductions to ongoing costs such as registration over the past decade.
- Significant resources into developing EV charging infrastructure, educational programs, and non-financial incentives to EVs.

**None of these measures are in place in Australia. There is no comparison to be made to the Australian market where no such support exists.**

To highlight the action of jurisdictions in encouraging electric vehicle uptake – and using the United States as an example - the below table outlines financial incentives California, Oregon, Utah, and Washington have provided to accelerate electric vehicle uptake.

These markets have made significant investments toward support EV uptake and are now considering next steps within that ecosystem.

Market	Incentive (USD)	State + Federal	~\$AUD
US National	\$7,500	-	\$10,000
California	\$2,500 - \$9,500	\$10,000 - \$17,000	\$15,000 - \$25,000
Oregon	\$2,500 - \$5,000	\$10,000 - \$12,500	\$15,000 - \$18,000
Utah	\$1,500*	\$9,000	\$13,000
Washington	\$2,500	\$10,000	\$15,000

\*State component expired

## **Governments should consider measures to support EV uptake before introducing new charges**

Governments around the world are passing increasingly stringent measures to support the transition to EVs. For Victoria and Australia, a similar approach to what is considered 'average' globally would include:

- Incentives that reduce the purchase cost of EVs by \$10,000-\$15,000
- Fuel Efficiency Standards
- Mandated EV targets

As well as increasing efforts already planned in the EV Action Plan

- Funding for charging infrastructure grants
- Fleet targets at 100% with interim targets
- Industry development funds

This enormous gap between Australian measures to support EVs compared to the rest of the world demonstrates the harm in prioritising new charges for EV use.

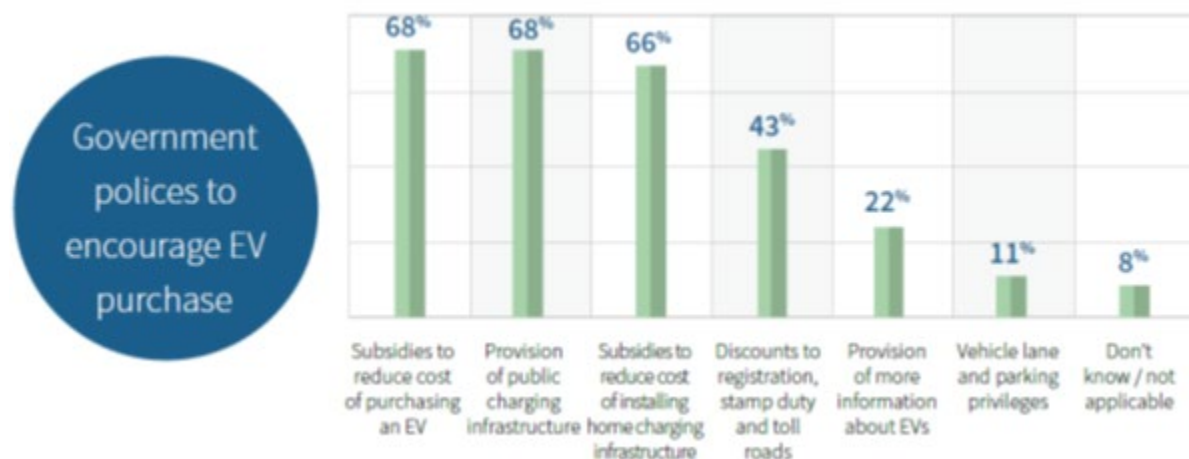
### Australian consumers want EV incentives

71% of Australians believe Australia should be a world leader in finding solutions to climate change, yet Australia continues to lag the world in electric vehicle uptake.

This year, the Electric Vehicle Council conducted research with the RACV, the RAA, and the NRMA to understand consumers attitudes towards electric vehicles.<sup>16</sup> This has been consistently reported over the last few years and consumer appetite continues to grow.

In 2020, our research found that:

- 56% of respondents would consider purchasing an electric vehicle as their next car purchase (up from 48% in 2018 and 53% in 2019).
- Those who would not consider dropped to 31% (from 45% in 2019).
- The upfront price of an electric vehicle discourages 50% of respondents from purchasing an electric vehicle.
- Respondents overwhelmingly support government policies to reduce the cost of electric vehicles and provide public charging infrastructure, with 68% of indicating these were policy mechanisms to encourage uptake.
- 23% of respondents indicated that electric vehicle policies should become a higher priority because of COVID-19.



Where three out of the four top policies ranked by consumers seek to making electric vehicles more affordable by providing some form of financial incentive, governments would be directly going against research demonstrating what is needed to accelerate electric vehicle uptake. Notably, the word 'tax' is rarely welcome.

### **The economic benefits of EVs should be priced into future models**

As previously outlined, there are several external benefits in transitioning our transport sector to electric. As states and territories establish their plans to reach net zero emissions by 2050, the benefits of electric vehicle uptake should be priced into treasury models.

Treasury models should additionally account for the decreased uptake of EVs due to an EV tax as well as the cost of any measures to mitigate this impact, such as the need for future carbon offsets due to the relative increase in petrol / diesel vehicle sales.

A holistic approach to modelling the costs and benefits of electric vehicles is fundamental to ensuring equitable tax revenue generation from road use – particularly as equity is the core proponent of an EV tax.