AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

SUBMISSION TO THE NATIONAL ELECTRIC VEHICLE STRATEGY CONSULTATION PAPER

OCTOBER 2022

CONTENTS

FOREWORD

The AADA welcomes the opportunity to provide input to the consultation paper on the National Electric Vehicle Strategy (NEVS).

The AADA is the peak automotive industry body which represents Australia's franchised new car Dealers. There are approximately 1,500 new car Dealers in Australia that operate some 3,100 new vehicle Dealerships. Franchised new car Dealers employ more than 59,000 people directly and generate more than $59 Billion in turnover and sales with a total economic contribution of over $14 Billion.

The adoption of EVs will bring a range of economic, environmental, and social benefits to Australia and franchised new car Dealers will play a crucial role in selling, servicing, and repairing these vehicles, while also educating consumers.

We are starting to see strong demand for EVs, but the uptake in Australia is still being hampered by high upfront costs relative to comparable ICE vehicles, supply constraints, lack of consumer choice in the vehicles Australian's want, lack of charging infrastructure and range anxiety, particularly in rural areas. These challenges are well known and in recent years we have seen the beginnings of Government action, particularly at state and territory level, to encourage the uptake of EVs.

However, it is widely agreed that Australia requires a more comprehensive, nationally led EV strategy which will achieve the important goal of reducing Australia's vehicle emissions. To do this the NEVS will need to apply the essential emissions standards and incentives that ensure overseas Manufacturers direct their EV product to the Australian market.

Although these actions are essential if Australia is to keep up with other countries, it is also important to realise that there are still many unknowns in relation to EVs. There are questions around the ability of the global industry to supply enough EVs given the critical minerals requirements of batteries. There are associated questions around when price parity will emerge.

In the face of such uncertainty, the Government should reaffirm its opposition to placing bans on the sale internal combustion engine vehicles or any other drive-trains.

It should also avoid knee-jerk policy reactions such as opening up Australia to imported older used EVs which are coming to the end of their life and pose significant risks to consumers and automotive businesses.

The National Electric Vehicle Strategy is critical and the actions that emerge from it should seek to provide Australians with access to a wide range of affordable EVs. The strategy should be ambitious, but it should also seek to be realistic and flexible while seeking to avoid unintended consequences which would undermine goals such as lower emissions, affordable vehicles, and vehicle choice.

In preparing this submission, the AADA commissioned survey research to canvas views and experiences of Australian drivers across particular areas relating to current behaviours and future vehicle intentions, including:

- The type of vehicle they currently drive (body style, age, fuel type);
- Their willingness to purchase an electric vehicle when replacing any of

their current household vehicles;

- Specific perspectives on electric and hybrid vehicles (willingness to consider, drivers/barriers of consideration and price point analysis);
- Attitudes towards EVs and the role of individuals in driving uptake.

The goal of this research was to assist us with understanding the status quo of mindset and attitude around EVs. We specifically wanted to gain a reliable and representative view from drivers themselves. To do this, we surveyed 2,000 Australian drivers (representative by age, gender and household location across Australia). The results from this research are included at Appendix A and are referenced throughout this submission.

James Voortman
Chief Executive Officer

Australia

3,026 Dealerships

Economic Contribution

59,669
Dealer Employees

$5.38 billion
Dealer Wages

$2.74 billion
Tax Contribution

$14.12 billion
Total Economic Contribution

Section 2

AADA KEY POINTS

1. The adoption of EVs will bring a range of future economic, environmental, and social benefits to Australia.
2. New car Dealers play an important role in supplying EVs to the market, in maintaining and repairing EVs and in educating consumers on EVs.
3. The primary goal of this strategy should be the reduction of vehicle emissions.
4. The NEVS should be federally led and provide for the maximum degree of national consistency.
5. The NEVS must duly consider structural EV supply constraints now and in the future.
6. The NEVS must consider the unique features of Australia's automotive market and its consumers' preferences.
7. Factors constraining the uptake of EVs in Australia include high purchase price, lack of model choice, and lack of charging infrastructure.
8. The AADA supports a Fuel Efficiency Standard which does not erode choice or affordability.
9. A Fuel Efficiency Standard needs to be complemented by financial incentives, tax reform, non-financial incentives and charging infrastructure.
10. The NEVS should rule out banning internal combustion engine vehicles or other drive trains.
11. The NEVS should rule out expanding access to older used imported EVs which are coming to the end of their life and pose significant risks to consumers and automotive businesses.
12. Australia should use its status as a supplier of critical battery minerals, to encourage OEMs to supply EVs on the Australian market

Section 3

NEW CAR DEALERS ARE KEY TO THE EV TRANSITION

The adoption of EVs will bring a range of future economic, environmental, and social benefits for Australia. As zero and low emissions vehicles become more prevalent, new car Dealers will play an important role in supplying those vehicles to the market, as they sell the overwhelming majority of new cars in Australia. There are a range of projections which show that the sales of EVs are set to increase in the coming years. If the expected level of uptake eventuates, new car Dealers are in a good position to respond to the logistical challenge of supplying and safely servicing these vehicles.

The Australian new car Dealer network is well placed to provide on the ground information and assistance in educating the buying public. Consumers have many questions on EV issues such as range, charging, performance, and others. Dealers working with their Manufacturers can provide accurate information on these issues and also to facilitate demonstrations of the EV technology.

In the past there has been a misunderstanding that the automotive industry in Australia is resistant to the adoption of EVs, because of a perceived threat to profit margins however this is not the case. Franchised new car Dealers work closely with their Manufacturers in developing inventory which reflects market preferences, and as this preference transitions to EVs our members will respond to the market.

Franchised new car Dealers employ more than 59,000 people nationwide, many of which are mechanics or service technicians. EVs may require less regular service and maintenance as they have fewer moving parts than ICE vehicles. However, they still require trained technicians to provide servicing and repairs and some forms of maintenance, such as tyre replacement, may see an increase in revenue.

There will also be additional revenue streams which come with the emergence of EVs and Dealers will work with their OEMs in assisting consumers with home charging solutions, usage of vehicles as mobile batteries and recycling of batteries to name a few.

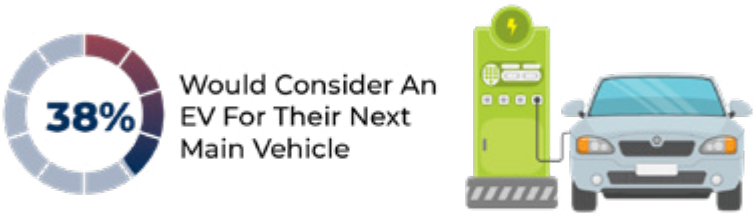
It is also important to note that when these vehicles do need repairs or are part of a vehicle recall, they will require trained technicians due to the risk that EVs pose. New car Dealers benefit from factory training and are contractually obliged to have appropriately trained workshop staff working on state-of the- art vehicles using the most up to date tools and equipment. They commit significant investment to training of their staff and are a major employer of apprentices.

STRATEGY FRAMEWORK

The goals and the objectives of this strategy are broadly appropriate, but AADA is of the view that the primary goal of this strategy should be the reduction of vehicle emissions, both carbon emissions and noxious emissions. Improving the uptake, choice, and affordability of EVs will play an incredibly important role in helping Australia minimise its vehicle emissions, but this strategy should also acknowledge that there are a range of vehicle drive trains that will play a role on the journey to net zero by 2050. We should not lose sight of the contribution of hybrid vehicles which have experienced phenomenal growth in Australia in recent years.

AADA is also of the view that this strategy should be nationally led and that we should be seeking the greatest possible degree of consistency across state and territory borders. The risk of going down the state-by-state approach is that Australia ends up with a patchwork system in which access to and benefits of EVs are not felt equally across the Commonwealth. While this will require a great deal of negotiation and engagement between the different levels of government, the Commonwealth is well placed to lead this process and influence outcomes.

While the objective of encouraging a rapid increase in demand of EVs is noble, it means nothing if the accompanying objective of increasing supply of affordable EVs is not met. EV sales are booming in Australia. At the time of lodging this submission, Australia has just experienced its best month ever in terms of new EV sales and after the first nine months of the year, 2022 is already the strongest year of EV sales on record. EVs received a 7.7 per cent market share in September 2022, a record-breaking figure. And while overall market share remains relatively low at 2.7 per cent, there is a clear trend towards purchasing new EVs. According to AADA survey results, 38 per cent of respondents said they are likely to consider an EV for the next vehicle they purchase, and 48 per cent are open to considering a hybrid vehicle.



However, new car Dealers report that the only reason more EVs are not being sold is due to significant supply constraints, with many customers being made to wait months and, in some cases, more than a year to take delivery of their EV.

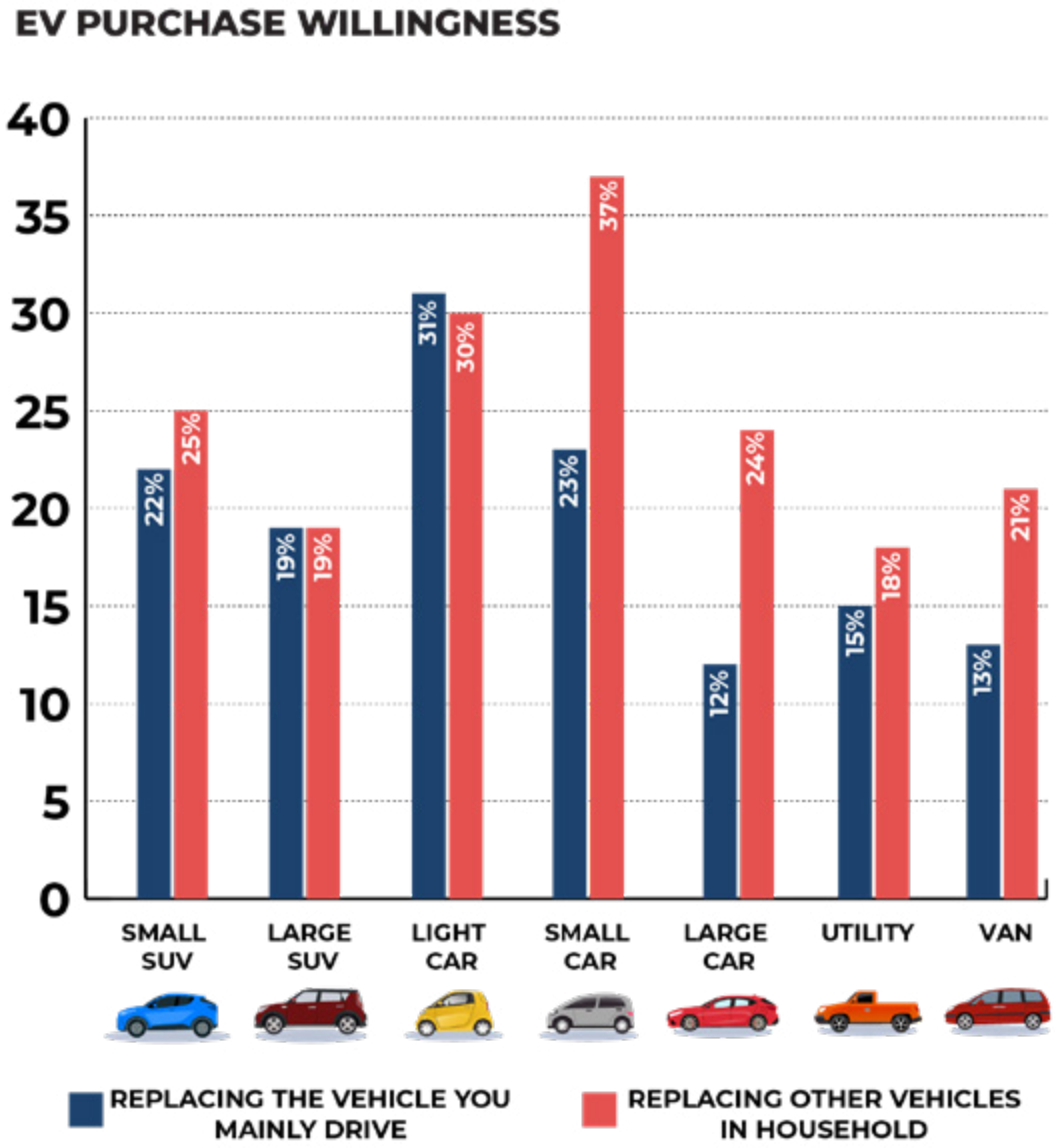
It is important that the NEVS takes due consideration of potential EV supply constraints now and in the future. In the coming years global demand for EVs will reach fever pitch as governments' emissions regulations and incentive regimes combine and influence consumer purchasing habits. To supply the required amount of EVs at a global level it is commonly agreed that there will have to be a significant increase in mining activity to manufacture the batteries which require critical minerals such as lithium, cobalt, nickel, and copper. S&P Global reports that mining executives expect

graphite demand by 2030 to be three times our global production capability. Meanwhile, the International Energy Agency predicts that battery and mineral supply will need to grow by ten times to meet international governments' EV ambitions. Lithium prices increased seven-fold in just over a year by May 2022, and cobalt and nickel prices doubled in that same time period, showcasing the significant increase in battery demand and a reason why it is difficult for Manufacturers to even consider price parity with their internal combustion engine equivalent vehicles. Projections from the Advanced Propulsion Centre in the UK show that due to lithium deficits, we could be 15 million battery EVs short of the global manufacturing requirements. The AADA does not pretend to know what EV supply will look like over the next decade, but it is a fact that adequate supply is an important determinant to more affordable EVs.

The NEVS should also take account of some of the unique features in Australia. In terms of Australia's automotive market, there are several important considerations. For starters, Australia does not manufacture passenger vehicles and so imports 100% of vehicles, leaving us at the mercy of global Manufacturers who make decisions about which product and what volume of that product is sent to Australia.

Approximately one million new cars are sold in Australia each year, making it a relatively small market in the context of the global market of 80 million new car sales per year. Australia is also a right-hand drive market and conventional wisdom states that global OEMs usually prioritise left-hand-drive production to supply larger, more profitable markets, leaving Australia at the back of the queue for some models. Australia's proximity to automotive manufacturing centres and the nature of the markets we are importing vehicles from should also be considered.

The NEVS also needs to understand consumer preferences in Australia and the factors that influence those preferences. In terms of the vehicles Australians are buying, there is a clear trend away from small, medium, and large cars to small, medium, and large SUVs and Utes. In AADA survey data, when asked what their intended future vehicle purchase might be compared to what they drive now, respondents displayed a strong intention to purchase medium-sized SUVs and large SUVs, with consumers planning to replace small cars with these larger vehicles. In turn, willingness to consider an EV is higher when the consumer intends to replace a vehicle with a light car, light SUV or a small car.



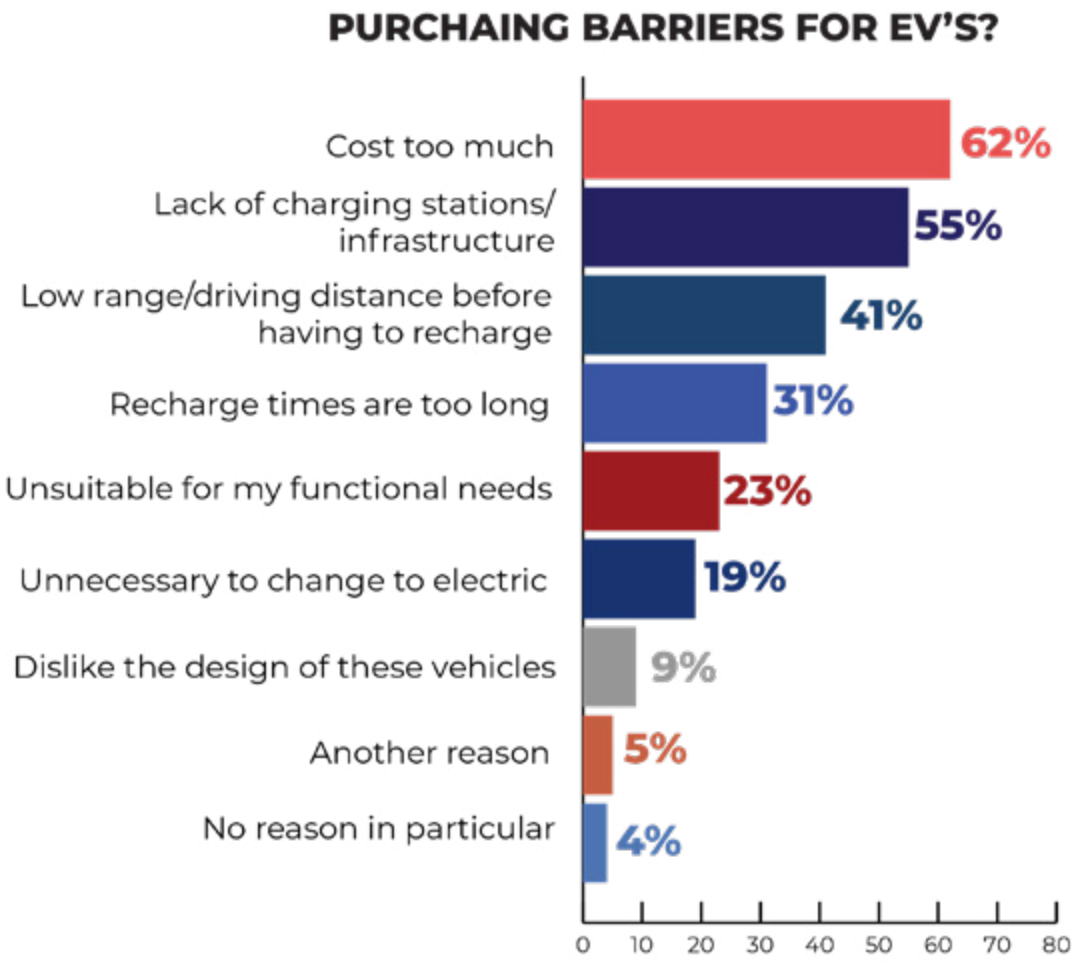
Our vehicle preferences are shaped by factors such as perceived distances we travel, the affordability of fuel relative to other countries, and the lack of public transport relative to other countries. None of these factors are reasons to avoid action to increase the uptake of EVs in Australia, but they do need to be considered in devising a strategy which is achievable and does not undermine goals of lower emissions.

BARRIERS TO EV UPTAKE?

To understand the actions required under the NEVS, we must understand the factors holding back EV uptake. The main concerns can be described as the three Cs – cost, choice, and charging.

Cost

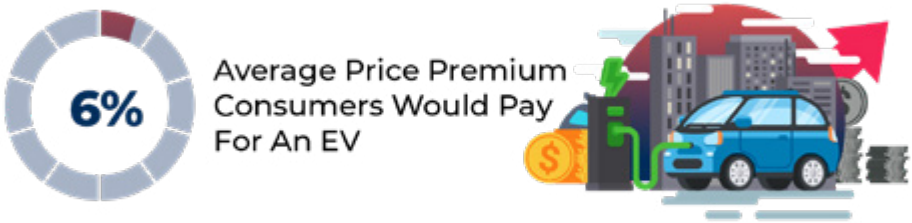
The biggest factor constraining uptake in Australia is the higher upfront cost of purchasing an EV. Despite the significant savings in running costs, many consumers are put off by the fact that EVs are nowhere near price parity with ICE vehicles. Our survey asked buyers who are unlikely to buy/unsure about buying an EV in future what the most common reason for their hesitance was and 62% cited the fact that EVs cost too much.



For comparison, two of the cheaper EVs on the market are the MG ZS EV, and the Hyundai Kona Electric Elite. They offer comparable ICE vehicles:

Model	Cost	Model	Cost	Difference
2022 Hyundai Kona Elite Auto 2WD	$31,900[1]	2022 Hyundai Kona Electric Elite Auto	$54,500[1]	$22,600
2021 MG ZST Essence Auto	$33,990[1]	2022 MG ZS EV Essence Auto	$48,990[1]	$15,000

The reason for the price disparity is the high cost of the lithium-ion battery which is expected to decline over time. In the meantime, some countries have sought to bring down the cost of EVs by offering financial incentives. Survey results show that on average, almost 50 per cent of customers are willing to pay some price premium for an EV over the same petrol vehicle. The customers said the overall average amount more they'd be willing to pay was approximately 6 per cent. Respondents in a household with above average income are far more likely (49 per cent) to consider an EV than those in below average income households (28 per cent).



[1] https://www.redbook.com.au/

Choice

One of the biggest factors constraining the uptake in EVs in Australia is the lack of choice, particularly among the vehicle segments that Australians prefer. The list of EVs available in Australia bears little resemblance to the list of top selling vehicles in Australia. A close inspection of the 20 best-selling vehicles reveals that Australians have unique vehicle preferences. The two top selling vehicles of 2021 are Utes, as are 7 out of the top 20 selling vehicles. Utes and 4WD vehicles contributed to 21.2 per cent of the new vehicles sold in 2021. At the time of writing this submission, there are no commercially available battery electric or plug in hybrid electric Utes available for sale in Australia, however one Manufacturer has announced they will be releasing an electric Ute for ordering sometime in November 2022. The EVs which are at the more affordable end of the scale are often smaller vehicles which Australians have been turning away from in recent years.

Charging

Lack of charging infrastructure is a major concern for many prospective EV buyers. It was rated the second highest barrier for considering purchasing an EV, behind high purchase price. 55 per cent of those surveyed said it was a concern for them. A recent consumer survey conducted in New Zealand by The Driven, showed similar concerns for consumers there. Purchase cost was rated as the highest deterrent to considering an EV, followed by driving range and accessibility to recharging stations coming in as the next two biggest purchase deterrents.

Deloitte's Global Automotive Consumer Study showed that overseas, 75-80 per cent of EV charging is conducted at home. Australians show similar tendencies to the rest of the world with 79 per cent expecting to be able to charge at home. There are also related concerns among a proportion of the population around the lack of range of some vehicles and time it takes to recharge a vehicle.

These concerns are by no means unique to Australian consumers and governments around the world have addressed these through policy interventions. In learning from other markets, it is clear that a successful NEVS needs to embrace a holistic approach, which includes all the necessary and complementary components required to increase demand and supply of EVs. These components include the development of fuel efficiency standards; provision of a range of incentives; investing in and coordinating the roll out of charging infrastructure; and other areas of change required.

It is not viable to deploy these components individually or in isolation from one another. They are interdependent and need to be applied together as part of a complete suite of policies. The world is still in the early stages of the transition to EVs, but the lessons in markets that are more advanced are clear. Standards, ambitious incentives and charging infrastructure need to be applied together and complement one another.

FUEL EFFICIENCY STANDARD

AADA supports the introduction of a mandatory vehicle fuel efficiency standard that is fit for purpose. The establishment of such a standard is a critical piece of the suite of policies that will ensure Manufacturers prioritise new zero and low emission vehicles for the Australian marketplace. The fuel efficiency standard needs to be ambitious, but it also needs to be achievable and developed by the Government in very close consultation with the Manufacturers who will be the entities which will need to make the investments to comply with the standard. Australia has unique circumstances and will need a solution to suit those circumstances.

From the perspective of franchised new car Dealers, we support a solution which allows our customers to access state of the art fuel-efficient vehicles, but which does not drastically reduce vehicle affordability or choice.

AADA welcomes the fact that there will be a more detailed consultation process for the design of a fuel efficiency standard. That separate consultation process will provide the platform for a more detailed discussion, but at this initial stage the AADA identifies the following features as central to a well-functioning fuel efficiency standard:

- An average emissions (grams of CO2 released per kilometre) target for OEMs, averaged across all the vehicles they sell in a given period
- An appropriate timeframe to adjust to the target
- Applies to all vehicles first supplied to the Australian market, including used car importers
- Separate targets for passenger vehicles/small SUVs and light commercial vehicles/large SUVs
- Allow OEMs to trade credits with each other and to transfer credits between their passenger vehicles/small SUV fleets and their light commercial vehicles/large SUVs fleets
- Super credits for ultra-low emissions vehicles, which count as more than 1 vehicle
- Consideration of off-cycle emissions reductions
- Review mechanism to consider acceleration of targets
- Penalties for OEMs who exceed the target
- Enforcement by the Department for Infrastructure, Transport, Regional Development and Local Government which administers Australia's vehicles standards

Section 7

FINANCIAL INCENTIVES

Australia has come to the party very late on incentivising EVs, lagging the likes of the US and the EU. At the state level there are various incentives ranging from rebates to stamp duty and registration discounts. The level of total incentive can range from around $4,500 of support in NSW to around $2,000 in Tasmania. This level of incentive pales in comparison to countries which have performed well in terms of EV uptake.

The United States is potentially the most appropriate market to compare with Australia's given the types of vehicles preferred, availability of public transport, the cost of fuel, and the distances required to travel. The US Federal Government have used income tax credits as a tool to encourage adoption of ZLEVs since it was first introduced in 2005. These credits currently total over $10,000 AUD.

In Germany, they estimate BEVs now account for 14 per cent of new car registrations and announced they will be reducing financial incentives to purchase ZLEVs from 2023 as the 'vehicles growing popularity makes government subsidies unnecessary'. Sales of ZLEVs almost doubled year-on-year, which was attributed to the subsidy scheme. Purchasers could access up to $13,000 AUD towards purchasing a full BEV and this subsidy is only being wound down now that the government there believes it has provided enough momentum for the change to keep continuing naturally.

Norway is often cited as the leader and example when discussing what is possible in ZLEV sales. While the challenges and landscape in Australia differ significantly to Norway, there are some learnings from their decades long transition to ZLEVs being 69 per cent of new cars sold in 2020. National incentives offered included no purchase tax or VAT (which is 25%), no road traffic insurance tax, and company car tax discounts. Localised incentives included half price tolls, half price parking, and use of bus and taxi lanes. A centrepiece of Norway's strategy included providing grants for housing associations, which was implemented at a local level of government.

While the AADA appreciates the changes which have been flagged around FBT and tariff concessions for EVs, these are modest incentives which do not apply to all vehicles and/or all buyer types. We also welcome the action taken by state and territory in terms of purchase incentives, or registration and stamp duty discounts. Again, these are modest and are not equally available to all Australians due to some states offering more or less generous incentives than others.

Markets with a high level of EV uptake typically provide generous financial incentives at the national level. Doing so will mean that the benefits incentives bring through more affordable electric vehicles will be more widely felt by all Australians regardless of what state you live in or whether you have access to an employer provided vehicle. We would welcome any discussions regarding any incentives to encourage purchasing new ZLEVs. The AADA's survey found that 71% of respondents believed governments should be incentivising customers more to transition to EVs.


CONSUMER OPINIONS
71%
"Governments should be incentivising customers more to transition to EV"
61%
"I'm concerned I won't be able to afford a vehicle if govts ban the sale of conventional fuel vehicles"
60%
"Given the current economic times, I'm less willing to pay more for an EV over other fuel types"
56%
"EVs don't have enough driving range for me to consider buying one"
55%
"The rising cost of petrol/diesel makes EVs more attractive to me"

Section 8

TAX REFORM

As part of the transition to EVs, Australia needs an urgent review of its Automotive taxation regime. Each year, Australians pay tens of billions in motoring taxes and charges to governments. According to the Bureau of Infrastructure, Transport and Regional Economics in the 2019-20 financial year, more than $32 billion in such charges were paid.

As fuel-efficient vehicles are increasingly adopted and trends such as ridesharing accelerate, Australia needs to consider the way in which we tax motorists and create a system which is fit for purpose for the future. At the federal level, a considerable part of that tax revenue has been drawn from the Luxury Car Tax (LCT). At a state and territory level we have significant stamp duty and registration charges applied to vehicle sales.

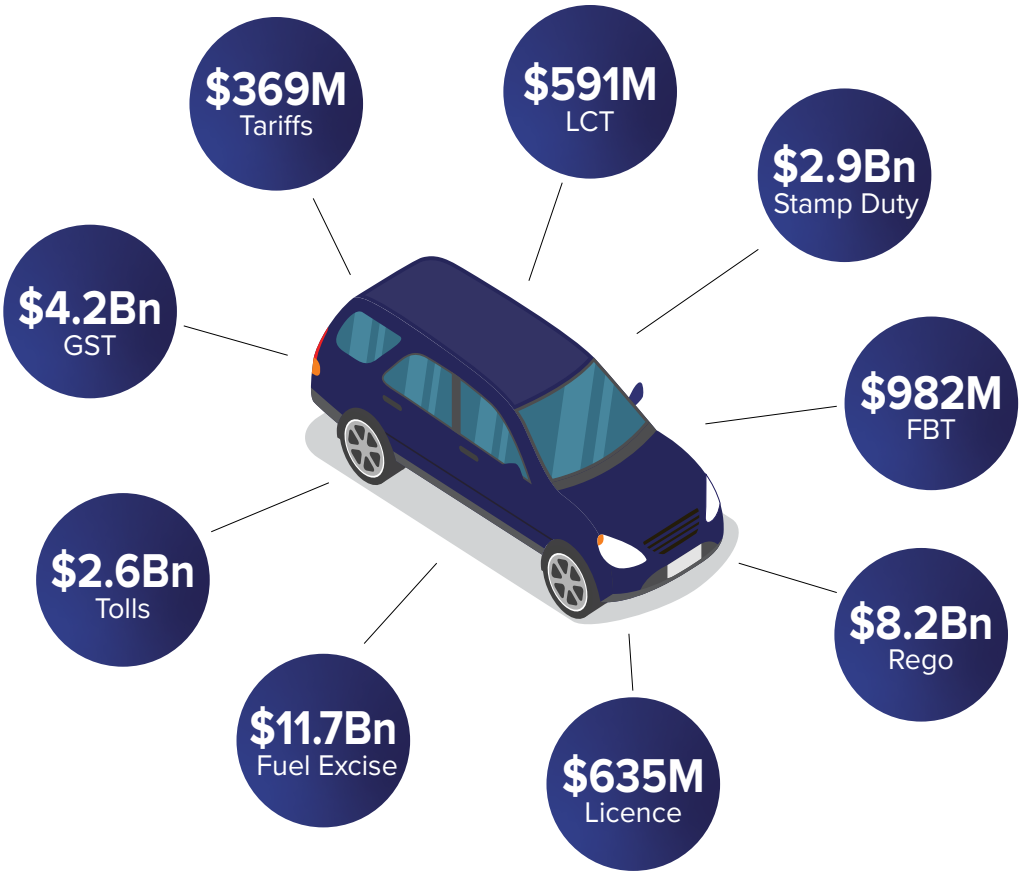
These taxes are outdated and have been discredited by various independent taxation reviews. Australian governments should work together to abolish or restructure these taxes to provide consumers and local Dealers with some relief, particularly as the new car market faces an uncertain future and supply remains severely constrained. Applying excessive taxes to new cars only disadvantages consumers seeking to buy vehicles which deliver greater safety as well as environmental and fuel efficiency benefits.

These legacy taxes were introduced in an era when Australia still manufactured passenger cars and maintaining them only disadvantages consumers and local businesses. Domestic passenger vehicle manufacturing no longer exists, but the tax structures that were there to support it continue to make passenger vehicles in Australia more expensive than they should be. Australia needs to modernise its automotive taxation regime to encourage affordable safe, clean, and efficient new cars. The Government has identified road safety, lower energy costs and emissions reduction as priorities – renewing the national fleet by selling new cars supports these priorities.

The AADA notes that technological and societal changes to our personal modes of transport, whether it be the increased uptake of fuel-efficient vehicles or autonomous vehicles in the longer term, will undercut current Commonwealth, State and Local Government taxation revenue streams. We urge the Federal Government to commence a program of consultation and establish a comprehensive automotive taxation regime that is fit-for-purpose for these new realities.

BILLIONS Taxed on cars in Australia.

AADA AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION



Total Tax paid by Motorists: $32.2 Billion

Source: BITRE, Australian Infrastructure Statistics Yearbook 2019, Table T 3.3a Selected road-related taxes and charges, Financial Year 2019-20, p. 71.

Section 9

NON-FINANCIAL INCENTIVES

Recurring and non-financial incentives can play a positive role in encouraging EV uptake, especially in regions where they can have the biggest impact on consumer's daily commute such as urban and inner-city areas. These types of non-financial incentives are widely used around the world. AADA supports the consideration of including incentives for EVs such as special lane access (carpool lanes, bus lanes), parking incentives, and road toll discounts or exemptions. While some of these incentives may be enacted at the council or local government level, we believe the federal government has a role to play in facilitating these discussions with the appropriate jurisdictions and encouraging a degree of consistency.

These recuring incentives have the opportunity to benefit not just new car owners, but in the medium to long term, those who purchase a used EV. Meaning incentives and subsidies can be targeted at those who are unable to afford the upfront purchase cost of a new EV, making it an appealing transition to make from any older, more polluting vehicles.

CHARGING INFRASTRUCTURE

Charging infrastructure is currently being rolled out throughout Australia, but we will need to significantly increase the number of options for EV drivers. Infrastructure Australia's (IA) priority list has an early stage proposal for a National highway electric vehicle fast charging network. It is appropriate that the Government treats the roll out of chargers as an infrastructure project and one that would take on a public private partnership character.

In Australia vehicle Manufacturers have invested significantly in charging infrastructure and we know that traditional fuel and electricity retailers are considering a future where electricity replaces conventional fuel. The IA process provides an opportunity for a joint strategy to roll out charging infrastructure with state governments, vehicle Manufacturers, electricity retailers and other private sector participants.

Home charging is considered as a top priority for consumers. Many consumers who purchase an EV expect to be able to charge their vehicle at their home, and therefore it is important to consider the infrastructure and retro fitting expenses that will be required to facilitate this and the updates that need to be put in place for building codes.

Countries around the world have varying subsidies in place to encourage the installation of home charging infrastructure:

- UK - EV Chargepoint Grant – 75 per cent or £350 towards the cost of installing EV smart chargepoints at home.
- US – Federal Tax Credit – $1,000 credit for residents that applies to EV charger hardware and installation costs.
- There are up to 30 different rebate offers across the US jurisdictions which vary based on location, utility provider and government agencies in the area.
- Germany – KfW-Bank – €900 for the purchase and installation of a home EV charger.

For many EV purchasers, at home charging simply is not realistic and therefore continuing to install public charging infrastructure will be critical to supporting a growing EV fleet. Further installation of charging stations, particularly in rural and regional areas, will alleviate any remaining concerns regarding range anxiety.

The inconvenience of time taken to re-fuel a vehicle fully will recede with the change in culture that takes effect and fast charging stations become more prevalent and faster, but in the meantime, it is a factor that is considered by potential buyers.

Section 11

BANNING INTERNAL COMBUSTION ENGINE VEHICLES

The AADA is fundamentally opposed to bans being applied to Internal Combustion Engine vehicles due the potential adverse consequences for the environment, Australian consumers, and the automotive industry and the people they employ.

There are simply too many unknown variables to proceed with a ban. The uncertainty around the industry's ability to meet the demand for EVs means that there are similar concerns around when price parity for EVs will emerge. Consumers who will not be able to afford an EV will simply hold onto their older ICE vehicle for longer, leaving lower- and middle-income earners with vehicles which are more costly to run, less environmentally friendly and less safe. Three out of five people are concerned they won't be able to afford a vehicle if there is a ban on the sale of ICE vehicles.

Proponents of a ban will point out that there are several ICE bans in other global markets, such as the UK (2030), the EU (2035) and certain US states (California 2035 and New York 2035). The AADA is not certain that these markets will not revise their plans to ban ICE vehicles. There are already signs that OEMs in those markets are questioning the achievability of those bans. BMW CEO Oliver Zipse recently warned that setting dates to phase out internal combustion engine vehicles could remove affordable vehicles from the market, placing ownership out of reach for many. The CEO of Stellantis made similar comments saying that the implementation of the ban in 2035 will lead to 'social consequences that are not manageable' due to the high cost being beyond lower- and middle-class citizens. He asked for a more affordable and transitional solution to be imposed. Finally, in September, Toyota president Akio Toyoda called for the Californian ban on new ICE vehicles by 2035 to be reconsidered as "realistically speaking, it seems rather difficult to really achieve that". He claimed that EVs are going to take longer than the media would have you believe and that bans simply narrow the options available to find solutions to removing CO2.

California has been a leader in the US for embracing emissions reductions, with 17 states following vehicle emissions standards that are tied to rules established there. They all need to make decisions about whether to follow the ban planned for 2035, and approximately 12 out of the 17 states have indicated they might not be following suit. Minnesota is one of the states who have indicated they don't believe following the ban at the same timeline is suitable for their circumstances and to commit to that target would be premature.

Australia is of course very different from those markets. For one the US and EU are all vehicle manufacturing powerhouses which have had fuel efficiency standards and subsidies in place for decades.

Furthermore, the ban on ICE vehicles in 2030 by the UK is not a standalone action item. In the UK's plan to decarbonise transport, they want to make public transport, walking and cycling the first natural choice for all who can use that for transport and reduce urban road traffic overall. The UK Government have invested in installing cycling and walking schemes and have committed Billions to continue to encourage this mode of transport. They have also committed Billions towards reshaping their bus network. The plan also

includes ensuring rail transport is made to be more simple and cheaper for its passengers. In the Decarbonising Transport Plan, they have set targets for 2040 to ensure the buses are zero emissions, and 2050 to deliver a net zero railway network.

The UK have a far greater range of EV options relative to Australia. In the US the top selling vehicles for 2021 more closely resembled Australia's market with the top 3 cars being pickups or 'trucks', and the top 10 list contained only one small car. This is in stark contrast to the UK for 2021, who had small cars or sedans occupy 7 out of the top 10 bestselling cars for 2021, and nothing larger than a small SUV. Many of the model options on the top 10 list in the UK had petrol, hybrid, or EV options to choose from.

Customers in the EU are naturally encouraged to look at alternate fuel sources to petrol or diesel due to the higher relative cost. In the Netherlands, petrol cost is above $3 per litre. According to the Australian Institute of Petroleum and despite recent increases, Australia still has one of the lower petrol and diesel prices of all OECD countries.

Australia will be a technology taker in the automotive industry. Manufacturing decisions made by both Governments and OEMs abroad will dictate what product arrives in the Australian market. However, banning ICE vehicles is ill advised in such an uncertain supply environment. It could disadvantage lower- and middle-income earners and it could increase emissions if Australians stay in their older more polluting cars for longer.

Section 12

USED ELECTRIC VEHICLE IMPORTS

The AADA is strongly opposed to increasing the supply of imported used EVs on the basis that it will have adverse outcomes for consumers; risk undermining confidence in EVs among the Australian public; make Australia a dumping ground for old lithium-ion batteries; and threaten Australian automotive businesses.

The current system in Australia whereby the overwhelming majority of our vehicles come through an OEM type approval has served the country well. Other than New Zealand, the importation of used cars has not been used as a strategy to boost vehicle supply by OECD countries - generally most grey imports are sent to developing countries. The influx of used car imports is why the average age of New Zealand's vehicle fleet is over 14 years compared to Australia's which is just over 10 years. In terms of road safety, New Zealand has a rate of road deaths per 100,000 population of 6.01 while in Australia it is 4.26.

The Government has considered opening Australia up to used car imports on several occasions and has consistently rejected it on safety and consumer protection grounds. It was rejected as an option formally through the Government's response to the Harper Review into Australia's Competition Law citing "consumer protection and community safety concerns". This position was upheld in the Government response to the Senate Inquiry into Australia's Future Automotive Industry which supported the bi-partisan recommendation to maintain restrictions on used car imports – again the Government cited "potential safety concerns and difficulty in ascertaining the vehicle's provenance".

Despite the Government's previously ruling out a used car import policy, its Specialist and Enthusiast Vehicle Scheme is being used as a back door to bring in a high-volume of used car imports. We believe the SEVs should be restricted, and any expansion should be roundly rejected due to the Government's previously articulated concerns around consumer protection and safety. While some proponents will argue that used imports provide an avenue to increase EV supply, this will come with the same risks as conventional vehicles and more.

The importance of the need to consider consumer protections have been reinforced by the Takata airbag recall. This was the world's largest automotive recall affecting around 100 million vehicles globally and over 4 million Takata airbags in around 3 million vehicles in Australia. The mandatory recall which followed, saw a phenomenal effort from Manufacturers and their extensive Australian Dealer networks to essentially complete the largest automotive recall in Australia history. The relatively small number of orphaned vehicles no doubt played an important role in the success of this recall.

While EVs have fewer moving parts and require less maintenance than ICE vehicles, they still encounter faults. One need only consider the example of the Chevrolet Bolt EV in the United States which was recalled due to batteries combusting spontaneously. General Motors advised owners not to park their cars within 50 feet of other vehicles, not to charge their cars overnight and not to keep fully charged vehicles in garages. All in all, the company was forced to recall all of the 141,000 units built. The fixes for EV batteries will be more expensive and

require significant expertise backed up by robust safety procedures of the like that can only be adequately covered by the type-approval holding OEM and its network of factory trained technicians employed by franchised Dealers. In the case of the Bolt, the lithium-ion battery pack spans the full wheelbase of the car and weighs more than 430kg. It contains hundreds of battery cells which when handled incorrectly during repairs, can be dangerous and increase risk of fires.

The other concern that is often cited in reference to used car imports is the difficulty in ascertaining a vehicle's providence. Odometer fraud, flood damage and unrectified recalls are only a few of the risks which come to mind. These all apply to EVs and a recent example in the US underscores how important having a firm grasp of the vehicle's provenance is. The National Highway Traffic Safety Administration (NHTSA) which administers vehicle standards in the US warned recently of the risk of fires in EVs which have been exposed to saltwater. The warning followed a series of EVs spontaneously combusting following saltwater surges caused by Hurricane Ian in Florida.

Another issue the Government should consider before allowing used EVs to be imported into Australia is the risk that Australia will become a dumping ground for old batteries which are coming to the end of their lives. It is no doubt tempting for other countries to disavow themselves of the responsibility of recycling and disposing of batteries. These batteries contain hazardous materials and can be dangerous to recycle. The task of disposing of these batteries will become a massive task and there is no doubt that Australia will need to develop the capability to recycle/dispose of EV batteries safely. However, there is no reason we should be pulling this task forward and importing a disproportionate number of old batteries which may have a very short lifespan.

The automotive industry is a key part of the Australian economy. From a new car retail perspective, Dealers have made significant investments in the more than 3,000 rooftops across Australia. These significant investments allow new car Dealerships to have state of the art facilities, with appropriate equipment and tools as well as an adequate supply of genuine parts. These investments allow Dealerships to train technicians to factory standards and employ a steady supply of apprentices. Collectively, the result of these investments is a sophisticated network of authorised Dealerships which spans every corner of Australia and is equipped to service and repair vehicles, uphold OEM warranty commitments, and conduct recalls.

This is a system which has served Australia well as recently evidenced by the Takata airbag recall and which sees many many more such examples play out every day all over the country. Opening Australia up to large volumes of used car imports will ensure a number of vehicles come in which will not enjoy the benefits of a type approval and the access to a Dealer network. It will undermine the investments these businesses have made and risk eroding the economic contribution Dealerships make in terms of employment, taxation, and the significant donations they make to charities and other community initiatives. Most importantly, it will also expose buyers of used EVs to significant harm.

There is no compelling case to open Australia to greater used car imports and this argument holds ground for all vehicles, including EVs.

Section 13

INDUSTRY POLICY

The Australian mining industry is in a great position to be at the forefront of EV growth through our supply of critical minerals used in the battery production. With the scale up of mining required mentioned earlier in this submission, it is a fantastic opportunity for Australia to position itself as being key to global EV supply.

Under the Inflation Reduction Act rules in the US, tax credits will only be made available to vehicles that have at least 40% of critical minerals in their EV batteries which must come from US miners or recycling plants, or mines in countries with free trade deals with the US. This figure will increase to 80 per cent by 2027. Australia is well placed to provide the lithium, cobalt, nickel and copper to the automotive industry in the US.

This is an example of the US Government trying to bolster its EV manufacturing industry which stands to benefit Australia. The AADA believes there is an opportunity for the Australian Government to use our status as a supplier of critical minerals, to encourage those OEMs to provide more EVs back to the Australian market. Many OEMs are now concluding supply deals directly with mining companies and we have seen such examples in Australia.

Recently, General Motors took a significant stake in Queensland Pacific Metals, securing access to key EV battery materials in the process. While this is undoubtedly a great deal for GM, they are a very low-volume supplier in Australia after withdrawing the Holden brand in 2020. They also do not supply a single electric vehicle to the Australian market and even if they do decide to supply EVs to Australia, they will be of insignificant volume given their strategy of exiting the global right-hand drive market. The Government has provided funding support for the development of our critical minerals sector and there may be an opportunity to use our abundance of minerals to influence OEMs and drive better EV supply outcomes.

QUESTIONS

1. **Do you agree with the objectives, and do you think they will achieve our proposed goals? Are there other objectives we should consider?**

Broadly speaking, the objectives of the strategy seem to be well placed to deliver on the goals set out in the National Electric Vehicle Strategy. Reduction of vehicle emissions should be at the front and centre of this strategy, leaving open the option that other low emissions vehicles like hybrids can play a major role in the transition to net zero. The strategy should ensure as much national consistency as possible to ensure all Australians benefit.

The AADA would urge the Government to reconsider the use of the word "Rapid" in relation to the objective of increasing demand for EVs. The evidence would suggest that demand for EVs is already rapid with sales increasing more than 500% for the first nine months of 2022. Currently, demand is not the problem. Rather it is the ability to supply EVs, particularly within the vehicle segments that Australians prefer to buy. There are questions of whether the current infrastructure and policy settings are sufficient to meet the rapid increase in electric vehicles.

Perhaps one contradiction exists between the objective of "encouraging a rapid increase in demand" while simultaneously "increasing supply of affordable and accessible EVs .... Australia like many countries is currently seeing rapid demand for EVs and due to the difficulty in meeting this rapid demand, we are seeing supply difficulties and associated price increases for electric vehicles. Economic science dictates that when demand outweighs supply prices invariably increase. The AADA is concerned that there are supply issues unique to electric vehicles which are likely to persist for some time and that this may undermine the objective of increasing supply of affordable and accessible EVs to meet demand across all segments.

2. **What are the implications if other countries accelerate EV uptake faster than Australia?**

In a supply-constrained world, vehicle Manufacturers will make decisions on where to allocate electric vehicles based on several factors, including the regulatory settings and incentive regimes of the various markets in which they operate.

Australia is already at a natural disadvantage to many other countries when it comes to electric vehicle supply due its: right-hand drive status; position as a small market in global terms and its location far away from manufacturing centres. Furthermore, Australia has to date resisted many of the policy interventions that other industrialized countries have adopted to stimulate the uptake of electric vehicles.

The AADA is of the view that the global automotive industry will continue to struggle to satisfy demand for electric vehicles. The challenges of sourcing the critical minerals required for lithium-ion batteries in the face of strong demand will likely see a finite number of EVs in coming years which is unlikely to satisfy global demand.

Australia already has a low level of EV uptake relative to other industrialised countries and if other countries accelerate at Australia's expense, the level of uptake will continue to lag.

3. **What are suitable indicators to measure if we are on track to achieve our goals and objectives**?

Emissions

From the AADA's perspective the most important goal of this strategy should be to reduce Australia's vehicle emissions. In relation to measuring the emissions performance of new car sales, one of the most important indicators is the emissions intensity work done by the National Transport Commission which makes use of the Federal Chamber of Automotive Industries (FCAI) voluntary CO2 Emissions Standard. It is important that emissions intensity for passenger cars and light SUVs (MA category) and heavy SUVs and light commercial vehicles (MC+NA category) are assessed separately and collectively.

While new car sales are an important metric, they only represent about 5% of the entire vehicle fleet and it is vital that we understand the emissions profile of all of Australia's 18 million registered vehicles. A key part of reducing vehicle emissions is ensuring that our vehicle fleet is renewed, so that the oldest, most polluting cars are retired and replaced by new zero and lower emissions vehicles.

Uptake

The suitable indicator for uptake is the Federal Chamber of Automotive Industries VFACTS publication which reports monthly on new car registrations. In making use of this metric, it is important to note that new car registrations are not the same as orders that have been placed for EVs as there can be a lag between the ordering and delivery/registration of a vehicle especially during periods of supply shortage.

Affordability measures

Electric vehicle prices will need to be monitored to ascertain whether the goal of making EVs more affordable is in fact working. Importantly, pricing should be monitored across all vehicle segments with particular focus on those vehicles popular among Australian motorists. Measures separate to the affordability of the vehicle should also be monitored, including electricity prices, servicing costs, insurance costs, etc.

Vehicle Choice

It will be important to understand which makes and models of EVs are available for sale on the Australia market, but also which EVs, Manufacturers are planning to supply on the Australian market. However, more important in ascertaining vehicle choice is knowing the allocation of specific vehicle types for the Australian market. For example, there are currently 45 electric vehicle models (including a total of 95 variants) available for sale in Australia – however, this means very little if we do not know the allocation available for those specific vehicles. There are currently several EVs for sale which due to limited allocation mean that customers are waiting many months and sometimes up to two years or are unable to place orders due to allocations being exhausted.

Very closely linked to the issue of allocation is the issue of vehicle supply. It is no secret that the global new vehicle industry has been beset by supply shortages brought on by the shortage of semi-conductors. There is evidence this issue is in the process of resolving itself, but EVs have unique challenges linked to the critical minerals required for the manufacturing of batteries. As the Australian Government continuously assesses the impact of the NEVS, it should leverage its relationships with Manufacturers to develop a good understanding of the global supply situation and its likely effect on the Australian market.

Charging infrastructure

Naturally, ensuring infrastructure is in place to support EVs will require the Government to maintain a thorough database on Australia's EV public charging infrastructure. This work should be done in collaboration with state, territory, and local Governments as well as private corporations involved in the supply of public chargers. Developing this national database will allow Government to assess whether there are any gaps in terms of coverage which could provide signals to public charging providers.

4. **Are there other measures by governments and industry that could increase affordability and accessibility of EVs to help drive demand?**

An effective National Electric Vehicle Strategy will be nationally led so that the affordability and accessibility of EVs are experienced by all Australians. It should employ the following measures in unison as part of a suite of complimentary polices:

- Fuel efficiency standards which are ambitious, but achievable should be implemented with sufficient time available for the improved standards to be introduced.
- Targeted financial Incentives, such as rebates and taxation concessions should be made available.
- The development of a national EV charging network made up of public and home chargers.
- Non-financial incentives, such as access to priority lanes or parking should be considered.
- Government and industry should lead the way through electrifying their fleets.

5. **Over what timeframe should we be incentivising low emission vehicles as we transition to zero emission vehicles?**

It remains unclear how long the Government will need to incentivise low emissions vehicles, because this depends on a number of factors, such as when price parity will emerge; how quickly consumer attitudes warm to EVs; what happens with the supply of low emissions vehicles and; whether geo-political factors influence the emergence of EVs.

Countries like the United States, the EU and Japan have provided incentives for low emissions vehicles for over a decade.

Germany which is seeing EVs make up almost 15 per cent of new car sales recently announced that it would be phasing out EV purchase incentives with the Government saying they are no longer required. The US on the other hand has just passed new legislation extending credits through to 2032.

It is important that the progress of the NEVS is constantly reviewed, including the question of incentives, but at this stage the Government should keep an open mind on the timeframe for low emissions vehicle incentivisation.

6. What information could help increase demand and is Government or industry best placed to inform Australians about EVs?

Many consumers are tentative about making the move to EVs and are determined to educate themselves prior to making a purchase. The more information available to customers the better and their requirements range from basic information which explains the difference between concepts such as ICE, BEV and PHEV to information specific to charging solutions and options. Consumers can also benefit from information on the various incentive and concession regimes available in different jurisdictions in Australia. At the point of buying an EV many customers are also interested in vehicle-specific information such as driving range, etc. Many will no doubt also seek information on environmental benefits, running costs, etc.

The AADA believes customers would benefit from Government playing a role in providing authoritative, impartial, and accurate information as a source of truth for consumers. The Government already plays such a role with the Green Vehicle Guide, but there are clearly many other areas of education and information which could benefit customers considering an EV as their next vehicle purchase.

We believe there is a role for Government and industry to collaborate and in particular we would welcome a system in which Dealers, which are the customer facing side of the industry, work with Government to ensure that consumers are provided with the best possible information by their trusted Dealer.

We have seen some good examples of this in jurisdictions like UK where the Office for Zero Emissions Vehicles provides useful resources for the public and has partnered with the National Franchised Dealer Association to develop the Electric Vehicle Approved program which accredits Dealers which embrace EVs. Similarly, in the United States, various public private partnerships have provided Dealer businesses with the opportunity to acquire EV certification.

7. Are vehicle fuel efficiency standards an effective mechanism to reduce passenger and light commercial fleet emissions?

The evidence suggests that vehicle fuel efficiency standards in markets such as the United States and the EU have played an important role in reducing emissions from passenger and light commercial vehicles. However, in those markets vehicle fuel efficiency standards have not and do not operate in isolation. They generally operate as part of a suite of

policies, including the provision of purchase incentives for vehicles and charging equipment; taxation settings favourable to low emissions vehicles; indirect incentives for low emissions vehicles such as priority parking, use of rapid transit lanes or free entry to congestion zones.

8. Would vehicle fuel efficiency standards incentivise global Manufacturers to send EVs and lower emission vehicles to Australia?

Australian Manufacturers are unequivocal in their support of fuel efficiency standards on the basis that they believe such standards will result in Manufacturers' head offices prioritising new low and zero emission powertrains for the Australian marketplace.

9. In addition to vehicle fuel efficiency standards for passenger and light commercial vehicles, would vehicle fuel efficiency standards be an appropriate mechanism to increase the supply of heavy vehicle classes to Australia?

We have no comment to make on this as we do not operate in the heavy vehicle sector.

10. What design features should the Government consider in more detail for vehicle fuel efficiency standards, including level of ambition, who they should apply to, commencement date, penalties and enforcement?

- An average emissions (grams of CO2 released per kilometre) target for OEMs, averaged across the vehicles they sell
- An appropriate timeframe to adjust to the target
- Applies to all vehicles first supplied to the Australian market, including used car importers
- Separate targets for passenger vehicles/SUVs and light commercial vehicles/large SUVs
- Allow OEMs to trade credits with each other and to transfer credits between their passenger vehicles/SUV and light commercial vehicles/large SUVs fleets
- Super credits for ultra-low emissions vehicles, which count as more than 1 vehicle
- Consideration of off-cycle emissions reductions
- Review mechanism to consider acceleration of targets
- Fines for OEMs who exceed the target

11. What policies and/or industry actions could complement vehicle fuel efficiency standards to help increase supply of EVs to Australia and electrify the Australian fleet?

The lessons from countries with a relatively high uptake of EVs are very clear. Fuel Efficiency Standards are only one component of a comprehensive suite

of policies. Incentives, both direct and indirect work as critical supplementary measures to a fuel efficiency standard.

12. Do we need different measures to ensure all segments of the road transport sector are able to reduce emissions and, if so, what government and industry measures might well support the uptake of electric bikes, micro-mobility and motorbikes?

We have no comment to make on this as we do not operate in these sectors.

13. How could we best increase the number of affordable second hand EVs?

The best way to increase the number of affordable used EVs is to ensure the highest possible uptake of new EVs which will eventually make their way onto the used-car market. Incentivising and encouraging Government and other fleets to turn over their EVs sooner is another policy lever which can help boost the number of used EVs available. Furthermore, there is an opportunity to improve affordability for low- and middle-income Australians who would struggle to afford a new electric vehicle by providing means-tested incentives and favourable financing offerings for used EVs.

14. Should the Government consider ways to increase the supply of second hand EVs independently imported to the Australian market? Could the safety and consumer risks of this approach be mitigated?

Expanding the importation of used EVs is a regressive, high risk solution. Advanced economies like the United States and the EU have not resorted to such drastic measures in their attempts to boost their used EV markets. This is a lazy policy solution which will discourage Manufacturers from supplying new EVs to Australia; will place consumers at risk due to lack of provenance of these vehicles; and will leave Australia with the unenviable task of recycling and disposing of early generation lithium-ion batteries.

15. What actions can governments and industry take to strengthen our competitiveness and innovate across the full lifecycle of the EV value chain?

Australia's mining resources are crucial for the world's plans to electrify transport. Minerals such as lithium, cobalt, nickel and copper are abundant in Australia and critical components for EV batteries. Despite our very important status as a supplier of these minerals, we are not using this status to influence the supply of EVs to our market. Global Manufacturers are now doing supply deals directly with Australian-based mining companies and the Australian Government should try and influence these deals so that Australia benefits from finished product being supplied to our market.

Section 14

16. How can we expand our existing domestic heavy vehicle manufacturing and assembly capability?

N/A

17. Is it viable to extend Australian domestic manufacturing and assembly capability to other vehicle classes?

N/A

18. Are there other proposals that could help drive demand for EVs and provide a revenue source to help fund road infrastructure?

The AADA is strongly of the view that any road user charging regime for EVs should be a nationally run initiative. AADA acknowledges the need to consider charging arrangements for EVs will increase as a greater proportion of EVs make up the fleet. To this end, we believe the Government should consider a period of relief for EV early adopters before a national system commences in 2027, a date which New South Wales, Western Australia and Tasmania have already flagged as a commencement period.

As the automotive industry changes we should also consider a more centralised automotive taxation regime in which the significant variations in registration charges, transfer duties and licence fees are more uniform.

There are significant financial and health benefits which accrue from reduced CO2 emissions and stronger noxious emissions standards. The Government's 2016 Improving the efficiency of new light vehicles Draft Regulation Impact Statement modelled a $2.7 billion saving by 2040, based on a fuel efficiency standard of 105gCO2/km by 2025. In addition, BITRE analysis found that implementing Euro 6d standards from 2027 for new model light vehicles and from 2028 for all new light vehicles would result in net benefits of almost of $5.3 billion. While these benefits accrue over two to three decades and go nowhere close to replacing the revenue required to fund roads, they should be considered in interim period until 2027 when a number of State governments are considering commencing a system of road user charging for electric vehicles.

19. What more needs to be done nationally to ensure we deliver a nationally comprehensive framework for EVs?

In ensuring this strategy is Federally led and nationally consistent across state and territory borders, the Government should establish intergovernmental structures. This should be at the officials' level and at the Ministerial level. The AADA would also argue that the importance of embarking on a national approach - on such issues as standards, incentives, skills/training, emergency services preparation, etc – the Federal Government should make use of partnership payments to states and territories to encourage all jurisdictions to pull in the same direction.

20. How can we best make sure all Australians get access to the opportunities and benefits from the transition?

There are significant risks that low- and middle-income Australians are left behind in the transition to EVs. Currently, the data shows that EVs are largely being purchased by people from higher income groups living in affluent inner-city areas. Current state and territory Government incentives and tax concessions do not apply income testing. If the Australian Government provides incentives and concessions like those applied in other industrialised countries, it should seriously consider means testing these incentives. The likelihood is that wealthier Australians are likely to make the transition to an EV sooner and providing assistance to those who can least afford it is likely to have a greater effect.

CONCLUSION

We would be happy to meet with you to discuss our submission and participate in any meetings or roundtables. If you require further information or clarification in respect of any matters raised, or a list of references please do not hesitate to contact me on:

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APPENDIX A

https://bit.ly/3TZMz2N

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