The Impact of the NVES on **Automotive Dealerships**

The Australian Automotive Dealer Association (AADA) has commissioned the CIE to undertake analysis to understand the impact of the New Vehicle Efficiency Standard (NVES) on automotive dealers. This work seeks to assess the incidence of NVES credits and penalties on dealers, as well as how changes in the markets for new and used cars due to the NVES affect dealers.

The NVES is expected to impose costs on dealerships of between $1.1 billion and $2.1 billion between 2025 and 2029.

The introduction of the NVES could cost Australian dealerships anywhere between $1.1 billion and $2.1 billion between 2025 and 2029, depending on how car manufacturers (OEMs) and vehicle importers decide to meet their emissions targets.

How Will OEMS Meet the NVES Targets and Who Pays For Compliance?

In order to comply with the NVES, OEMs and importers have three options:

Option 1	Option 2	Option 3
Adjusting their vehicle mix to reduce fleet emissions by importing more EVs in segments with higher consumer adoption (e.g., small cars) and fewer high-emission vehicles (e.g., LCVs).	Purchase credits from regulated OEMs and vehicle importers who outperform the NVES target each year (i.e. have emissions below their NVES target) and received credits.	Pay the penalty or infringement notice for not meeting the target. In practice paying a penalty will be similar to purchasing credits, as the price for credits is likely to be linked to penalty or infringement rate.

In practice, most regulated entities are expected to use a mix of these strategies to meet their NVES obligations.

Further, there is a question of how the costs and benefits of the NVES are shared between stakeholders. Regulated entities could: absorb the costs themselves, pass this to dealers, pass this to customers, or some combination of this.

In implementing a response, regulated entities or OEMs, can be expected to seek to minimise the cost to themselves of the NVES. Therefore, costs are likely to at least in part be passed onto dealers and customers.

Both the approach to meet the NVES, and how costs are shared across stakeholders will affect the impact on dealers. To reflect this range of approaches, four scenarios have been modelled which reflect the range of possible responses.

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Scenarios compared to the base case

		SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4
		Costs/benefits absorbed by dealers and OEMs	Costs/benefits fully passed onto consumers	Change vehicle mix to meet the passenger and SUV NVES target	Change vehicle mix to meet the NVES target for all light-duty vehicles
EV Uptake	All light duty vehicles	- (17% of new car sales by 2029)	↑ (25% of new car sales by 2029)	↑↑ (34% of new car sales by 2029)	↑↑↑ (45% of new car sales by 2029)
Fleet Emissions	All light duty vehicles	- (does not meet NVES target)	↓ (does not meet NVES target)	↓↓ (does not meet NVES target)	↓↓↓ (meets NVES target)
Consumer Prices	EV	-	↓	↓↓	↓↓↓
	ICE	-	↑	↑↑	↑↑↑
New Car Sales	All light duty vehicles	-	↓	↓	↑
Dealer Impact		$1.9 billion	$1.3 billion	$1.1 billion	$2.1 billion

Key Takeaways

The NVES Policy Hits Dealers Hard:

- The NVES policy creates a major financial challenge for automotive dealers, with the most challenging scenario (Scenario 4) leading to substantial losses, particularly for dealers reliant on internal combustion engine (ICE) vehicles.
- Full compliance (Scenario 4) involves major adjustments, like price hikes, that are often seen as unrealistic and unsustainable. This means that dealers face significant challenges meeting the policy's requirements while keeping their businesses profitable.

Impact on Profits:

- Gross Profits from new car sales: Across all scenarios, dealers are expected to see a decline in profits from new car sales, primarily due to penalties for non-compliance and price drops in the case of full compliance (Scenario 4).
- Used car sales: Used car profits rise in Scenarios 2 and 3, as higher new car prices push consumers toward second-hand vehicles. However, in Scenario 4, the demand for used cars declines.
- Servicing profits: Servicing profits also drop under Scenarios 2-4. The main reason is that EV servicing costs are lower, thus reducing overall servicing revenue.

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Complying with the NVES is Broadly Expected to Result in Higher Car Prices (at least initially).

To successfully achieve the outcome of reduced fleet emissions, the NVES must drive the following changes;

- Increasing the cost of high emission vehicles
- Decreasing the price of low emission vehicles, which tend to be more expensive than high emission vehicles

Because, for the NVES to be met under scenarios 2, 3 and 4, prices for ICE vehicles will increase as consumers are pushed towards EVs and other low emission vehicles. Higher prices are expected to result in fewer new car sales but will be offset somewhat by higher used car sales. This is expected to reduce demand for new vehicles and increase demand for used vehicles.

Net Impact by Scenario:

- Scenario 1 (no change in vehicle sales): Dealers are not required to change their sales mix, so they absorb the costs and penalties of non-compliance. The net impact in this case is relatively negative, with an estimated loss of $1.9 billion.
- Scenario 2 (change in vehicle mix with cost pass-through): A shift in vehicle mix toward EVs can generate some benefits, with used car sales seeing a boost due to higher new car prices. The net impact improves slightly here, but profits still fall overall.
- Scenario 3 (passenger & SUV NVES target): Dealers are more impacted by the transition to meet emissions targets (without the paying of penalties) for passenger cars and SUVs. However, there is slightly better performance in used car sales due to increased demand.
- Scenario 4 (full compliance with all vehicle NVES targets): This scenario has the highest net impact on dealers (up to -$2.1 billion), largely because it requires major price adjustments for all vehicles, including commercial and light-duty vehicles, which are difficult to adapt to the required emissions standards.

Sensitivity Analysis

The penalty of not meeting the NVES standard is set at $100 per gCO2/km above the target, however, the penalty is uncertain. Although the act sets out a penalty of $100 per gCO2/km, the Secretary could alternatively issue an infringement notice penalty of which would be $50 for each gCO2/km. We use $100 per gCO2/km, in central estimates as only this is set out in the Act, but test the impact of $50 per gCO2/km as part of sensitivity testing.

Marginal Cost of Abatement

The marginal cost of abatement is assessed by measuring the cost per tonne of CO2 reduced, with costs calculated based on the net impact on dealerships from 2025 to 2029, plus any penalties or benefits absorbed by original equipment manufacturers (OEMs).

For scenarios 2 to 4, where emissions are avoided, scenario 4 has the largest net impact on dealers at $60 per tonne, scenario 2 has the second-highest cost per tonne for dealers at $43 per tonne and scenario 3 results in the lowest cost per tonne for dealers. If the full penalty is included, the results show that the cost per tonne of carbon is significantly higher than the average Australia Carbon Credit Unit (ACCU) spot price of $36 per tonne. This suggests that the policy is comparatively expensive relative to the expected emissions reductions.