

## BRIEFING NOTE

# FUEL EFFICIENCY STANDARDS: PRIORITY POLICY SETTINGS TO DELIVER CLEANER CARS THAT ARE CHEAPER TO RUN

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## BACKGROUND

Transport is Australia's largest source of harmful carbon pollution after energy, accounting for over 20 percent of national emissions in 2022. While emissions from other sectors have started a welcome and necessary decline, those from transport are still rising.

Cars and light commercial vehicles make up almost two-thirds of this pollution. Fortunately, electrifying these vehicles and powering them with renewable energy is a practical step we can take to cut transport emissions and help protect Australians from climate harm.

There is strong demand for new low and zero emission vehicles in Australia, but a lack of supply means that waiting lists of 12 months or more are common at the moment. At the same time, Australians have far fewer choices for low and zero emission vehicles at an affordable price, compared with drivers overseas. This is because Australia is one of the only wealthy countries in the world without legislated national fuel efficiency standards - putting us in the same company as Russia.

To accelerate the transformation of Australia's fleet, we need to increase the availability of affordable new vehicles that are cheaper and cleaner to run. Fuel efficiency standards can help achieve this by creating the right incentives for manufacturers to send far more low and zero emissions new vehicles to Australia.



## WHAT ARE FUEL EFFICIENCY STANDARDS?

Fuel efficiency standards aim to limit the greenhouse gas emissions Australia's fleet of cars release. They do this by creating a maximum annual average level of carbon emissions across a manufacturer's overall new car sales. Over time, the maximum amount of CO<sub>2</sub> that can be emitted is reduced, meaning car makers must offer more low and zero emissions new vehicles to avoid penalties.

**Strong fuel efficiency standards are already in place in a range of markets similar to Australia's, including the USA, United Kingdom and New Zealand.**

The Federal Government has committed to introduce fuel efficiency standards for Australia. Climate Council recommends the following policy settings to ensure these are effective in cutting costs for drivers and transport emissions.



## KEY SETTING #1

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### SET AUSTRALIA ON A CLEAR PATHWAY TO ALL NEW CAR SALES BEING ZERO EMISSIONS BY 2035 AT THE LATEST

#### Why does it matter?

The International Energy Agency has stated we need to see 100 percent of new vehicles sold be zero emissions by 2035 at the latest if the world is to achieve net zero emissions by 2050. This is because every vehicle sold in the next few years will remain in the fleet for more than a decade. So to achieve the Federal Government's commitment to net zero, we need to get on the same pathway in Australia.

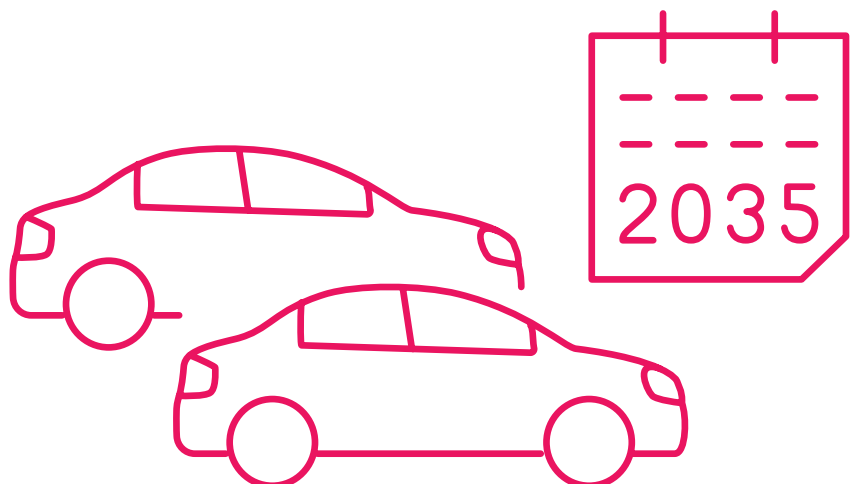
This will require the average annual emissions ceiling for Australia's fuel efficiency standard to progressively decline from the date of commencement through to 2035. The annual emissions ceiling is the maximum average amount of CO<sub>2</sub> that a car maker's new car fleet can produce. At the moment, average emissions across Australia's light passenger vehicle fleet are 146.5g CO<sub>2</sub> per kilometre, and 212.5g CO<sub>2</sub> per kilometre for light commercial vehicles.

#### Recommended approach

The annual emissions ceiling for Australia's fuel efficiency standard should be set on a trajectory consistent with seeing 100 percent of new vehicles sold be zero emissions as soon as possible, and by 2035 at the latest. This will require a progressive reduction in the annual emissions ceiling every year from the commencement of the standard.

New light passenger vehicles and light commercial vehicles may initially have different annual emissions ceilings, reflecting the different amounts of pollution they produce today. But regardless of these starting settings, by 2035 all new vehicles sold will need to be zero emissions.

Climate Council notes that a science-aligned emissions reduction target would see Australia reach net zero significantly earlier than 2050. For this reason, 2035 should be considered the latest date for an effective emissions reduction trajectory.





## KEY SETTING #2

### ALIGN AUSTRALIA'S FUEL EFFICIENCY STANDARDS WITH OTHER MARKETS LIKE NEW ZEALAND, THE UNITED STATES AND EUROPE

#### Why does it matter?

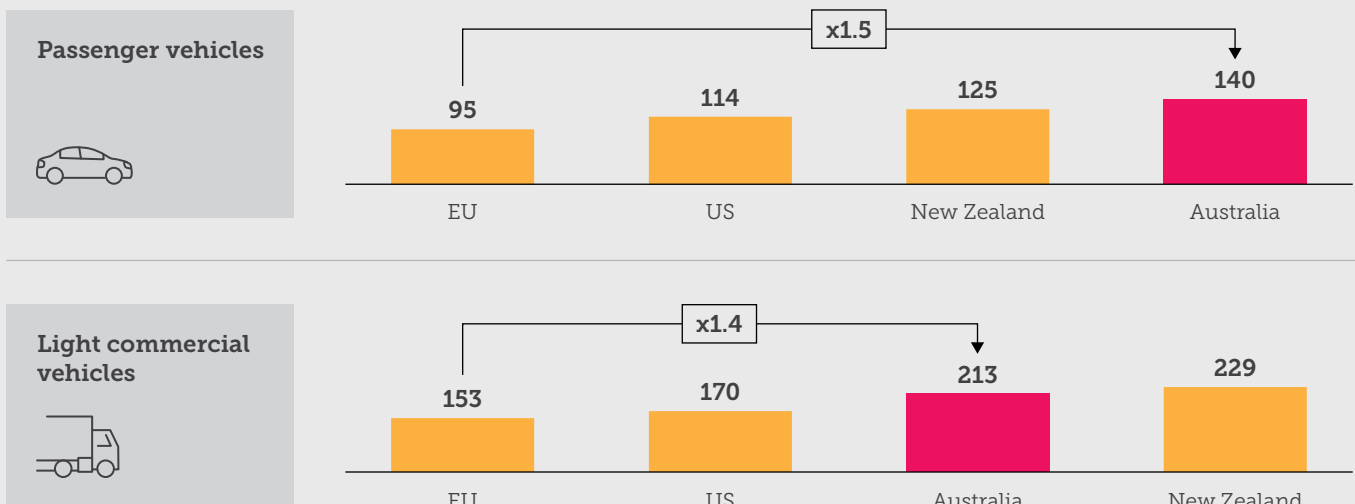
At the moment, Australia is at the back of the queue when it comes to accessing the cleanest and cheapest new cars. Our lack of fuel efficiency standards has seen us become a dumping ground for expensive, polluting vehicles manufacturers can't sell in other markets. To see Australia move up the queue for the best new cars, we need fuel efficiency standards which are at least equivalent to other major markets.

#### Recommended approach

Australia's fuel efficiency standards need to align with comparable markets like New Zealand, the United States and Europe. This means setting the average annual emissions ceilings (explained above) within the range of the caps applied in these countries. For example, by 2025 the USA is aiming to reduce fleetwide average emissions for new light passenger vehicles to 91.1g CO<sub>2</sub> per kilometre, and 132g CO<sub>2</sub> per kilometre for new light commercial vehicles.

If Australia has weaker limits on vehicle emissions than other comparable markets, this will not incentivise manufacturers to send more low and zero emission new vehicles here. We will remain a dumping ground for inefficient cars that cost Australians' hip pockets, health and the environment. A weak standard which lags well behind other countries is just as bad as having no standard at all, because Australians will not see the benefits of cleaner cars that are cheaper to run.

#### AUSTRALIA'S LIGHT VEHICLES PRODUCE SIGNIFICANTLY MORE CO<sub>2</sub> THAN THOSE IN OTHER MARKETS (CO<sub>2</sub>g/km, 2022)



## KEY SETTING #3

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### AVOID EXCESS CREDITS THAT UNDERMINE THE EFFECTIVENESS OF FUEL EFFICIENCY STANDARDS

#### Why does it matter?

In all fuel efficiency standard schemes, manufacturers may earn and sell credits if their average annual fleet emissions are below the target cap. Manufacturers who have emissions over the target cap must buy these credits to lower their annual fleet average. This ability to earn and trade credits is an important part of the scheme design.

However in some countries, vehicle manufacturers are allowed to count low and zero emission vehicles more than once when calculating their average annual fleet emissions. This means they may be able to meet their annual caps while still selling a lot of high polluting vehicles. These are known as 'super credits', and they can significantly reduce the effectiveness of fuel efficiency standards. Some schemes also provide additional credits for technologies that manufacturers claim cut emissions beyond the tailpipe, like measures to reduce air conditioning use and improve engine cooling. These are known as 'off cycle credits' because they address technologies which are not captured by standard emissions testing regimes.

When fuel efficiency standards were first being introduced across the globe, there was some need to incentivise the development of low and zero emissions technologies for light vehicles through offering these kinds of 'super credits' and 'off cycle credits'.

But given the more advanced stage of these technologies today, it is simply no longer the case that manufacturers need additional incentives to produce these cleaner vehicles.

#### Recommended approach

The use of 'super credits' and 'off cycle credits' should be avoided wherever possible within the design of Australia's fuel efficiency standard. Handing manufacturers these free credits means they will not need to sell as many low and zero emission new vehicles to meet their average annual emissions caps. Too many free credits water down the scheme and reduce its effectiveness in changing the types of cars manufacturers supply. If this happens, Australians will miss out on the full benefits of cleaner cars that are cheaper to run.

There is no case whatsoever for the provision of 'super credits' for entire classes of vehicle technology - like battery electric vehicles; or models where there are suitable alternatives already on the market - like heavier passenger SUVs. If 'super credits' are provided anywhere, they should be limited to vehicle types and technologies which are still genuinely at a nascent stage of development.

To maintain the integrity of Australia's fuel efficiency standard, manufacturers should ideally not be eligible for 'off-cycle credits' of any kind. If 'off-cycle credits' are to be included in some form, their use should be capped at a low, per vehicle level. Further, any technologies supplied as standard in other markets at the time of commencement for the Australian scheme should not be eligible for 'off-cycle credits'.

Avoiding excess credits is key for ensuring Australia's fuel efficiency standard genuinely cuts emissions and gives local drivers more choice in low and zero emission new cars.



## KEY SETTING #4

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### ENSURE AUSTRALIA'S FUEL EFFICIENCY STANDARDS ARE MANDATORY AND LEGISLATED

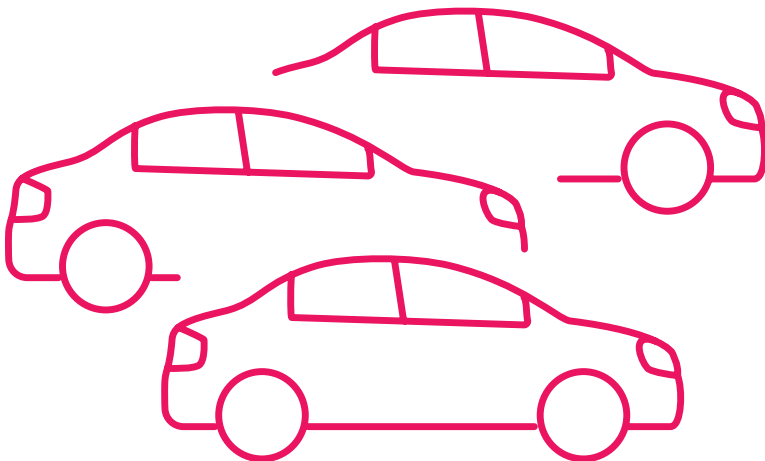
#### Why does it matter?

To ensure the success of Australia's fuel efficiency standard, this should be mandatory and legislated - vehicle manufacturers should not be able to opt out. Climate Council supports the Federal Government's intention to legislate Australia's fuel efficiency standard once designed, to ensure this delivers real benefits for Australians.

#### Recommended approach

The Climate Council recommends the key settings for Australia's fuel efficiency standard be set in primary legislation to provide policy certainty for manufacturers and the community. While some scheme details may be set by regulation, key settings like the declining target average annual emissions ceilings, data and reporting requirements, and penalties should all be clearly set out in a new Act. In line with other laws like Australia's *Climate Change Act*, this legislation should clearly state that target caps for annual fleet emissions can only be tightened in the future, not made weaker.

The new Act should include requirements for manufacturers to transparently report on their average annual fleet emissions before and after the use of credits. Penalties outlined in the Act should be set at a sufficient level to drive genuine compliance. The Act should also set out anti-avoidance rules and associated penalties to create a level playing field for all participants and prevent manufacturers from swapping vehicles between regulated categories or taking other steps to avoid penalties.



## KEY SETTING #5

### GET STRONG STANDARDS IN PLACE AS SOON AS POSSIBLE

#### Why is this important?

Australians are doing it tough in the face of rising costs of living - including high prices at the petrol pump. With an average of around 91,000 new cars being sold every month in Australia, ongoing delay means many drivers will miss out on cleaner cars that are cheaper to run.

Further, every new vehicle sold today will likely be on the road for at least the next 10 to 15 years. Transitioning Australia's fleet to low and zero emissions vehicles will take time, so we need to get started on this big task as soon as possible. This transformation is essential for achieving net zero by 2050 as the Federal Government has committed to do; or earlier as the science says is needed to avoid the worst impacts of harmful climate change.

#### Recommended approach

The enabling legislation for Australia's fuel efficiency standard should be introduced to Parliament before the end of 2023, with passage during early 2024. This would allow the standard to commence on 1 July 2024. This is a similar timeframe provided for legislative passage and implementation of the Government's Safeguard Mechanism reforms - a considerably more complicated policy framework.



With the transformation of Australia's energy system underway and accelerating rapidly, decarbonising transport is the next frontier in tackling harmful climate change. Designing and implementing a strong fuel efficiency standard for Australia's light vehicle fleet is an essential step to drive down carbon pollution, while also cutting the cost of living for Australians, delivering cleaner air for better health and a safe climate. Australians have much to gain from this reform - no matter what type of new car they choose to buy. That is why it is essential the Federal Government now moves quickly to put a strong fuel efficiency standard in place.

#### Read our submission

For underlying data sources and more information on Climate Council's recommendations for a strong and effective Australian fuel efficiency standard, [read our submission](#) to the Federal Government's consultation.



## FURTHER RESOURCES

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The Climate Council has produced a range of reports and analysis on fuel efficiency standards and Australia's transition to low and zero emission vehicles.

For more information, check out:

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[Raising standards, cutting costs: how a new vehicle standard can reduce vehicle emissions and save consumers money](#)



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[Ute beauty! The case for low and zero emission utes](#)



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[Race to zero emissions scorecard: who's the cleanest of them all?](#)



## MORE INFORMATION

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