

## Submission to the Senate Standing Committee on Economics on the COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020.



The Electric Vehicle Council (EVC) is the peak body representing the electric vehicle industry in Australia. Our members include companies involved in providing, powering, and supporting electric vehicles.

We welcome the opportunity to make this submission to the Senate Standing Committee on Economics on the COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020.

### Initial comments on the COAG Reform Fund Amendment (No Electric Taxes) Bill 2020.

The Electric Vehicle Council commends the introduction of the COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020 to block state governments' intent to impose premature new charges that will decrease the already lagging uptake of electric vehicles (battery electric and plug-in hybrid electric)<sup>1</sup> in Australia.

Various state governments' intention to introduce a new tax on electric vehicles is premature and will stifle Australia's transition to zero emissions vehicles. The lack of policy support for electric vehicles has already caused Australians to miss out on many electric vehicle models and for Australia to be a global laggard in electric vehicle uptake.

Should these measures pass, Australia would be the first market in the world to discourage electric vehicle uptake with a new tax, rather than encourage them with incentives.

The priority for governments today should be focusing on accelerating electric vehicle uptake rather than stifling it with new taxes. This is particularly pertinent in states who claim to be committed to achieve net zero emissions by 2050, while their transport emissions are rising.

Recent research from EY commissioned by the EVC demonstrates that the argument that electric vehicles are causing a decrease in tax revenue is unfounded. In fact, today electric vehicles create upwards of \$8,700 in net benefits, while consumers pay more in tax than a comparable internal combustion engine vehicle.

Given that the Prime Minister has recently acknowledged the need to transition to a net zero future, 'preferably by 2050'<sup>2</sup>, it is in the Federal Government's interest to mediate any tax introductions that could further restrict Australia's uptake of electric vehicles.

It is additionally in the Federal Government's interest to introduce electric vehicle policy, based on international best practice, which is vital in achieving net-zero. A business-as-usual policy scenario will not permit Australia to reach these commitments, with transport today as the fastest growing source of emissions.

A road user charge (RUC) for electric vehicles implemented ad-hoc across state lines is complicated and premature. This will lead to confusion for consumers and added complication for fleets who operate on a national basis.

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<sup>1</sup> For the remainder of this submission 'electric vehicle' refers to battery electric vehicles and plug-in hybrid electric vehicles only. It does not include hybrid vehicles.

<sup>2</sup> Address – National Press Club Barton ACT (2021) Prime Minister of Australia, Scott Morrison  
<https://www.pm.gov.au/media/address-national-press-club-barton-act>

It is concerning that the introduction of Road User Charges by several states does not focus on the far greater priority of charging based on emissions. Particularly troubling is that state treasurers and lobby groups have publicly stated the benefit of political expediency as justifying the introduction of these charges through electric vehicles, while uptake is low.

This demonstrates a severe miscalculation of the needs and desires of the Australian people, who overwhelmingly support efforts to decarbonise and address climate change.

## Introduction

The accelerated adoption of electric vehicles (battery and plug-in hybrid electric) would provide enormous social, economic, and environmental benefits for Australia.

Today, they are already a cleaner form of transport than internal combustion engines, and, as our energy mix continues to decarbonise, provide the only pathway to a zero-emission transport future.<sup>3</sup>

They reduce our reliance on imported oil and will improve urban amenity as they are quieter and do not pollute local communities. Unfortunately, in Australia, the lack of policy action has caused uncertainty that restricts investment in the electric vehicle sector. This results in fewer electric vehicles being made available, purchased, and manufactured on our shores.

The lack of supportive policy is the core reason we do not see greater choice in electric vehicle models made available to Australian consumers. This is particularly noticeable in more affordable 'mass market' segments.

As a result, electric vehicles made up only 0.75% of new car sales in Australia in 2020, while global uptake is at 4.2%, more than 10% in markets such as the UK and EU, and as high as 74.5% in Norway.

The introduction of a road user charge for this emerging industry will have a stifling effect on uptake. As one of the only markets that does not encourage the transition to electric vehicles through regulation and consumer incentives, this measure will make Australia the world's only market to discourage it through a new tax.

It is important to note that Australia is a long way away from new charges for electric vehicles being the priority. With only 0.1% of our vehicle fleet being electric and transport emissions projected to rise over this decade, prioritising further impediments to electric vehicle uptake is misguided.

The priority for markets in this emerging stage of the transition to electrification is to provide financial and non-financial incentives to encourage and accelerate the market.

Consumer choice is already hampered by a lack of support, as manufacturers send their electric vehicle models to more progressive nations. There should be no mistake that the measure by states to introduce a new tax burden, rather than incentives, is a global aberration and will have a drastic impact on future investment in our market.

It will lead to less choice for consumers, as vehicle manufacturers send their electric vehicles to supportive jurisdictions. Furthermore, it will cost our economy significantly in terms of new jobs and investment opportunities in the global transition to electrification.

An electric vehicle tax sends an unequivocal signal that Australia does not support investment in technology and innovation in e-mobility. All the while, creating little tax revenue and failing to address the priorities in our road and transport system.

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<sup>3</sup> Smit, R (2020) Meeting our greenhouse gas emission targets: can electric vehicles meet the challenge? [https://51431d88-662c-4884-b7bc-b5b93a225b7d.filesusr.com/ugd/d0bd25\\_bbeb4c905a2b4121b0ef3870648f78cf.pdf](https://51431d88-662c-4884-b7bc-b5b93a225b7d.filesusr.com/ugd/d0bd25_bbeb4c905a2b4121b0ef3870648f78cf.pdf)

## Now is not the time for a Road User Charge (RUC)

The Electric Vehicle Council supports the need to reform the road taxation system via road user charges (RUCs) in the future. However, the Electric Vehicle Council opposes the implementation of a tax now, that will:

- stifle adoption of electric vehicles in an emerging market and/or
- create a net financial disincentive to electric vehicle uptake.

Today, the barrier of high upfront costs for electric vehicles is partially offset by the lower operating costs. Taxing the operating costs of electric vehicles removes the only natural financial benefit to electric vehicles, particularly as governments here have refused to provide upfront incentives. A road user charge for electric vehicles at this time would reduce consumer uptake and discourage businesses from investing in our market.

Any effort to implement a road user charge must be done in conjunction with a financial incentive to offset a net-disincentive for electric vehicle owners. Governments must consider measures to support electric vehicle uptake before introducing new charges for electric vehicles.

In jurisdictions that are now implementing trials of road user charges, consumers have been provided with financial incentives over the last decade to stimulate uptake.

## Taxing Electric Vehicles is not road funding reform

Overseas jurisdictions who are serious about road funding reform are not implementing blanket approaches of taxes for electric vehicles. In contrast, they are running pilot schemes on a voluntary basis for all vehicles, while conducting research into the methods for designing road user charge programs.

*For example:*

California has been considering road user charge funding options since the launch of its pilot scheme in 2015. A road user charge is being considered because 'Californians are switching to more fuel-efficient vehicles, meaning they buy less gas and pay less gas tax.'<sup>4</sup>

*"The California Road Charge Phased Demonstration program, represented in four phases, is meant to explore how drivers could be charged for the miles they travel, rather than the fuel they use. The program outlines several methods for collecting revenue, such as paying at the pump or at electric vehicle charging stations, or through a usage-based insurance approach."*<sup>5</sup>

The Electric Vehicle Council is concerned that a rushed approach to road user charges may impinge on Australians' right to privacy. Governments considering implementing a road user charge have suggested using a GPS device to track the kilometres driven by an electric vehicle.

Additionally, a road user charge approach to electric vehicles is not in line with the Federal Government's 'technology agnostic' policy. To permit the introduction of taxes that disfavour electrification will distract from transport decarbonisation goals.

### **The Electric Vehicle Council recommends that:**

- Short-term financial incentives are prioritised to accelerate uptake until the market has reached 10% electric vehicle penetration.
- New charges on electric vehicles are delayed until greater uptake of electric vehicles is reached:

<sup>4</sup> California Road Charge (2021) FAQs <https://caroadcharge.com/about/faqs/>

<sup>5</sup> Transport Topics (2020) California seeks 150 participants for Road User- Charge Research <https://www.ttnews.com/articles/california-seeks-150-participants-road-user-charge-research>

- Until 2030, or
- When electric vehicles have reached 10% of the vehicle fleet.
- Road funding reform should address the greater priorities of emissions and congestion.
- At such a time the market has reached 10% electric vehicle penetration, the road user charge is implemented for all vehicles on an opt-in basis:
  - To ensure equitable revenue generation from all vehicle users, the introduction of a road user charge must not be restricted to electric vehicles only.
    - Loss of fuel excise is a result of fuel-efficient cars consuming less petrol/diesel, which require drivers to purchase less fuel and pay less fuel excise.
    - Internal combustion engine vehicle owners may benefit economically from switching to a road user charge system, where they drive less than the average vehicle, and therefore should pay less in fuel excise/road user charges.
    - Other factors such as those living in remote areas, or without access to public transport, should be taken into consideration.
    - Road user charges should be technology agnostic.
  - An opt in for all approach for all vehicles allows for the system to be refined as needed, without disadvantaging electric vehicle owners. Additionally, it adjusts expectations of participants who are aware they are part of a pilot program.
- A road user charge is designed and implemented in consultation with the electric vehicle industry and other relevant stakeholders.<sup>6</sup>

Given that the revenue generated by a road user charge directly correlates to the number of electric vehicles sold, the introduction of a road user charge without providing incentives to offset the cost will result in a loss of potential revenue over the next decade. It will additionally result in Australian jurisdictions being the first to net-disincentivise electric vehicles globally.

Furthermore, the argument that state governments are losing money as a result of a loss in fuel excise from electric vehicles is false, given that the tax from fuel excise does not directly maintain or build new roads and infrastructure.

Where road funding allocation is decreasing due to the vehicle fleet's efficiency, new taxes and road tax reform should seek to solve the broader issue of lost revenue. Particularly as electric vehicles already pay their fair share through environmental, societal, health, and economic benefits.

Recent analysis from EY commissioned by the Electric Vehicle Council has quantified the net benefit of electric vehicles in Australia, where the average net benefit to government and society of an electric vehicle replacing an internal combustion engine vehicle is \$8,763.<sup>4</sup> This includes higher tax revenue from electric vehicle sales today, due to their comparatively higher upfront cost.

### Projected uptake of electric vehicles

In a report commissioned by Commonwealth Government agencies the ARENA and the CEFC, Energeia demonstrates the impact of a business-as-usual approach to electric vehicles in Australia, compared to uptake as a result of policy actions in various scenarios.<sup>9</sup>

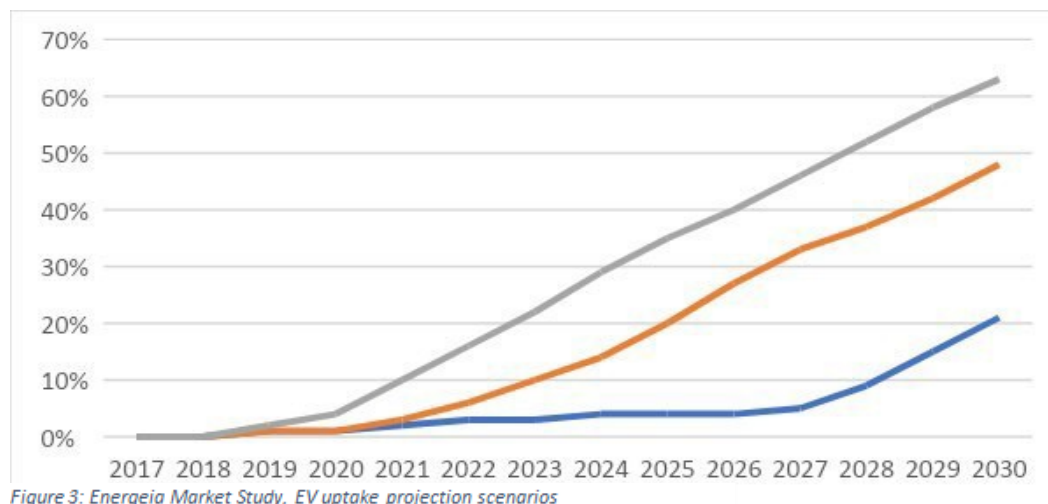
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<sup>6</sup> Insurance groups, motoring groups, transport peak bodies, etc.

It finds that Australia's electric vehicle market stagnates over seven to nine years, compared to global markets, due to policy inaction.

Since this study was published, other markets have increased their policy support for electric vehicles, resulting in further lost investment for Australia.

**We are currently falling short of the low / business as usual projections.**



Despite this, the Federal Government recently updated their 2020 emissions projections report - increasing its forecast to 26% electric vehicle penetration by 2030<sup>7</sup> - while failing to present any argument as to how that will be achieved.

The Federal Government's emissions modelling also did not consider the new state taxes, which studies indicate could decrease electric vehicle uptake by between 25 and 38 per cent.<sup>8</sup>

For the government to reach these projections, electric vehicle policy would need to be introduced (beyond what is included in the 'Future Fuels Discussion Paper') that incentivises uptake far ahead of any effort to increase charges on electric vehicles.

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

The confidence that electric vehicle uptake in Australia will increase exponentially to 2025 and beyond, regardless of policy support and/or new charges, is unjustified. This is demonstrated today, where lower priced electric vehicle models are not bought to Australia, due to investor uncertainty for demand.

The increased model availability and declining prices forecast for electric vehicles and associated technologies will not be mirrored in Australia without the correct policy settings for electric vehicle manufacturers.

The automotive sector has repeatedly stated that model availability in Australia is restricted due to the absence of government regulations and supportive policies:

<sup>7</sup> Australia Government (2020) Australia's emissions projections 2020 <https://www.industry.gov.au/data-and-publications/australias-emissions-projections-2020>

<sup>8</sup> Australian Financial Review (2021) Electric vehicle targets likely to fail <https://www.afr.com/companies/transport/electric-vehicle-targets-likely-to-fail-20201221-p56p85>

- **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>9</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>10</sup>
- **Nissan Australia Chief Executive, Stephen Lester**, said a lack of leadership in embracing electrified cars was out of step with the world’s leading economies and there was no reason the nation could not be a global leader in the uptake of the technology- “The manufacturers play a key role in bringing choice and availability to the market. The private sector can support the build-up of infrastructure and services. And we need the government as another arm of support by giving direction and confidence to consumers.”<sup>11</sup>
- **SAIC, China’s biggest car maker**, 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>12</sup>
- **Toyota Motor Corporation Australia** has commented on its delays bringing lower priced electric vehicles 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>13</sup>

Therefore, and due to a lack of policy support, it is incredibly important that the Federal Government does not allow states to introduce new taxes that will further stifle uptake, reduce demand, and push Australia further away from price parity.

### The need for electric vehicle policy

Once sold; vehicles stay on the road for an average of 15-17 years. Consequently, in order to reach net-zero emissions by 2050, the last internal combustion engine vehicle must be sold by 2030, or 2035 at the latest.

Governments globally have demonstrated their commitment to electrification with strong electric vehicle policy, that includes plans to phase out petrol and diesel vehicle sales. National and sub-national jurisdictions with plans to ban internal combustion engine vehicle sales include<sup>14</sup>:

- **By 2030:** Barcelona, Cape Town, Denmark, Iceland, Ireland, Israel, London, the Netherlands, Slovenia, Sweden, the United Kingdom and Vancouver.

<sup>9</sup> Drive (2017) BMW slams Government over “inaction” for electric cars <https://www.motoring.com.au/bmw-calls-for-government-co2-action--again-107537/>

<sup>10</sup> Cars Guide (2019) Kia Australia’s EV plans delayed <https://www.carsguide.com.au/car-news/kia-australias-ev-plans-delayed-76580>

<sup>11</sup> SMH (2021) Maker of world’s most popular electric car blasts Australia’s lack of ambition <https://www.smh.com.au/politics/federal/maker-of-world-s-most-popular-electric-car-blasts-australia-s-lack-of-ambition-20210302-p5772f.html>

<sup>12</sup> Australian Financial Review (2019) Chinese car giant slams electric car black hole <https://www.afr.com/companies/manufacturing/chinese-car-giant-slams-electric-car-black-hole-20191115-p53awi>

<sup>13</sup> Car advice (2019) Toyota Australia looks to roll out EVs from around 2025 <https://www.caradvice.com.au/802835/toyota-australia-electric-vehicle/>

<sup>14</sup> This is not an exhaustive list

- **By 2035:** Japan, California,
- **By 2040:** France, Sri Lanka, and Singapore.

In addition, vehicle manufacturers are investing billions towards electrification via new product lines, and setting targets:

Recent commitments include<sup>15</sup>:

- Audi commits \$15.4 billion to electrification with 20 electric vehicles by 2025
- BMW plans over 7 million electric vehicles globally by 2030
- Daimler announces \$85 billion investment in electric vehicle
- Ford commits to 100% all-electric passenger vehicle range in Europe by 2030
- General Motors commits to all electric by 2035
- Hyundai plans 23 electric cars by 2025
- Jaguar Land Rover commits to all electric by 2025
- Nissan plans to electrify all new models in Japan, China, the US and Europe from the early 2030s.
- Renault announces 24 new models by 2025
- Volkswagen invests \$142 billion in electrification over the next 5 years

In Australia, the lack of formative electric vehicle policy continues to have a devastating impact on electric vehicle uptake. This is despite that fuel efficiency standards and financial incentives are recognised as the most effective means to encourage uptake of electric vehicle uptake.<sup>10</sup> In fact, no successful electric vehicle market exists globally without having provided financial incentives to lower the upfront cost for consumers.

Policy is the most important driver in the transition to electric road transport in Australia.

The Electric Vehicle Council recommends that a mix of regulatory, financial, and infrastructure policy is implemented in four areas:

#### 1. Policies to directly reduce electric vehicle costs and improve model availability

Policies to reduce electric vehicle costs and improve model availability have the most impact on electric vehicle uptake. These 'carrot' policies, such as financial incentives, encourage consumers to purchase electric vehicles. Importantly, these policies are required for manufacturers to decide to bring electric vehicles, particularly models in cheaper 'mass market' segments to Australia.

The Electric Vehicle Council recommends that Australia accelerate uptake and improve model availability by:

- Providing an upfront financial incentive of at least \$5,000 for the purchase of an electric vehicle, for the years 2021 - 2025.
  - This may be achieved through a combination of via an upfront incentive / cashback schemes, and/or an exemption to existing charges such as registration and motor vehicle tax duty exemption.
  - An incentive of \$5,000 would be on the low end of upfront financial incentives available globally. The table below lists national incentives in G7 countries, excluding complementary incentives available at the sub-national level.

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<sup>15</sup> Additional commitments can be found in: EVC (2020) State of Electric Vehicles 2020 appendix

| <b>G7 electric vehicle purchase incentives</b> |                                   |             |
|--|-----------------------------------|-------------|
| <b>Market</b>                                  | <b>Incentive (local currency)</b> | <b>~AUD</b> |
| 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   | £3,000                            | \$6,000     |
| USA  | \$7,500 USD                       | \$10,000    |
| Australia                                      | -                                 | -           |

Table 1: Financial incentives for the purchase of electric vehicles

- Setting a government fleet target of 100% by 2030.
  - It is noteworthy that President Biden committed to electrify the 600,000-vehicle government fleet in his first week in office.
- Publicly stating an aim to achieve a sales target of 100% electric vehicle sales by 2030 (or 2035 at the latest).
  - The EVC is currently developing research on the annual sales objectives that would be required to achieving net zero by 2050 would be happy to work with the Government in developing their milestones.
- Supporting states to require public transport contracts procure new zero emissions buses and coaches as soon as feasible, with a target of full fleet electrification by 2030.
- Delaying a road user charge until electric vehicles account for 10% of the fleet, or set by a later date, with interim reviews.
- Creating exemptions for zero emissions freight vehicles to operate outside current residential curfews and bans, and trialling waivers for weight restrictions for these vehicles.

## 2. Implementation of CO<sub>2</sub> emission standards

Currently, 80% of the global light vehicle market has CO<sub>2</sub> standards while Australia does not.<sup>16</sup> The introduction of light vehicle CO<sub>2</sub> emissions standards, in line with global standards, would directly reduce emissions and encourage vehicle manufacturers to bring a wider variety of electric vehicles to Australia.

Research has shown that CO<sub>2</sub> standards have had a direct impact on electric vehicle uptake in jurisdictions that are tightening them. In Europe, 2020/2021 CO<sub>2</sub> standards regulate that automakers must reduce their overall fleet emissions to 95g CO<sub>2</sub>/km (for 95% of their car sales in 2020).

Once the 2020/2021 regulations came into effect in 2020, electric vehicle (battery electric and plug-in hybrid) sales grew from 3% to 10.5%, while petrol and diesel market shares dropped for the first time under 50% and 30% respectively.<sup>17</sup>

A clear CO<sub>2</sub> policy commitment would signal to vehicle manufacturers that the government is serious about addressing emissions from passenger transport.

<sup>16</sup> Australian Financial Review (2019) Fuel efficiency standards better than a Trump deal <https://www.afr.com/property/commercial/fuel-efficiency-standards-better-than-a-trump-deal-20190806-p52e97>

<sup>17</sup> Transport and Environment (2021) CO<sub>2</sub> targets propel Europe to 1<sup>st</sup> place in mobility race <https://www.transportenvironment.org/sites/te/files/publications/2020%20EV%20sales%20briefing.pdf>



Importantly, these standards should be complemented with measures to support consumers decisions to achieve these targets, such as financial incentives for electric vehicles.

### 3. Policies to improve charging convenience

The provision of charging infrastructure is necessary to relieve range anxiety for prospective consumers. However, investment in charging infrastructure does not alleviate the cost burden of purchasing an electric vehicle. States are incorrect to argue that investment in charging facilities offsets the burden of new taxes.

Where electric vehicle ownership is not incentivised, the commercial viability of operating public charging infrastructure will continue to be unfeasible. As such, charging infrastructure investment should be coupled with policy drivers to encourage electric vehicle purchasing.

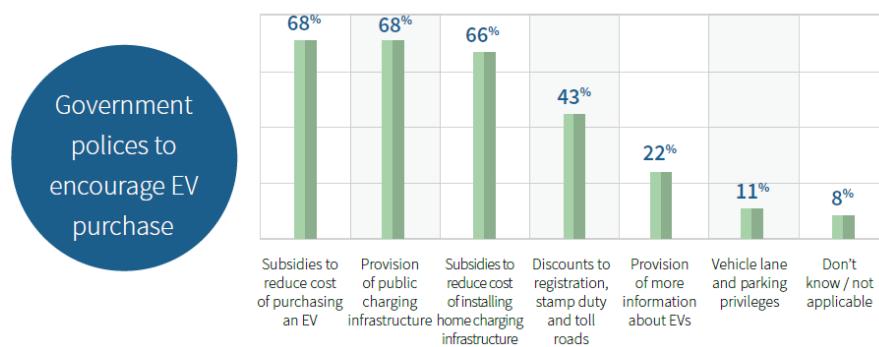
The Electric Vehicle Council recommends that governments improve charging convenience by:

- Providing financial incentives to reduce the cost for home chargers.
- Providing financial incentives to reduce the cost for commercial chargers.
- Investing in bus depot upgrades to power electric bus transition.
- Investing in heavy vehicle charging infrastructure along freight routes to support long distance logistics transport operators.
- Addressing inappropriate electricity tariff structures that disincentivise the rollout of public electric vehicle charging sites.

### 4. Policies to increase consumer knowledge and awareness

Consumers in Australia have already indicated interest in an electric vehicle as their next vehicle purchase. Research published by the Electric Vehicle Council in August 2020 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).

Furthermore, respondents overwhelmingly indicated support for government policies to reduce the cost of electric vehicles and provide public charging infrastructure, with 68% indicating these were policy mechanisms to encourage uptake.



Consumer surveys have shown a strong correlation between knowledge of electric vehicles and willingness to purchase.<sup>18</sup> Government should, following effective actions to increase electric vehicle uptake, support efforts to educate consumers, including fleets, of the benefits of electric vehicles.

<sup>18</sup> Electric Vehicle Council (2020) State of Electric Vehicles in Australia 2020  
<https://electricvehiclecouncil.com.au/reports/state-of-electric-vehicles-2020/>

### Additional resources

Please find attached to this submission:

1. Electric Vehicle Council – Briefing on an Electric Vehicle Tax for the Victorian Government
2. EY report - commissioned by the Electric Vehicle Council – Uncovering the hidden costs and benefits of electric vehicles.