



The Productivity Commission is conducting five pillars of productivity inquiries. This submission from the Electric Vehicle Council responds to the Commission's August 2025 interim report: [*Investing in cheaper, cleaner energy and the net zero transformation*](#).

As the peak body representing Australia's EV industry, the EVC is ambitious for the role electric vehicles can play in a decarbonising economy. To realise their full benefits, however, economic policy must be carefully balanced and the timing well-calibrated. The EVC has focused on the Commission's recommendations on emissions reduction in road transport. Our responses to the Commission's recommendations are in chronological order below.

DRAFT RECOMMENDATION 1.1 REDUCING EMISSIONS IN THE ELECTRICITY SECTOR AFTER 2030

The Electric Vehicle Council recommends national policy settings in the electricity sector that:

- Create nationally consistent incentives for lowest-cost clean energy, irrespective of generation technology or jurisdiction.
- Embed investment incentives to ensure reliability and system security are maintained.

Consumers and industry require policy alignment so as not to dampen confidence and hurt the industry. A new "broader incentive" will need to be brought in before existing schemes such as the Renewable Energy Target and Capacity Investment Scheme are wound back.

DRAFT RECOMMENDATION 1.3: INTRODUCE AN EMISSIONS-REDUCTION INCENTIVE FOR HEAVY VEHICLES AND PHASE OUT POLICY OVERLAPS FOR LIGHT VEHICLES

For much of the past 20 years, the heavy vehicle sector has received little to no support to decarbonise, and as a result, Australia is now faced with the challenge of a relatively inefficient, high-emissions vehicle fleet. The EVC welcomes the Commission's options on ways to reverse this trend with meaningful policy incentives.

Option 1: Include a carbon component in a future road user charging scheme

There is already a carbon component in the current road user charge (RUC) for heavy vehicles. As the Commission itself notes, however, the carbon component is implicit and only "incidentally creates an incentive to reduce emissions". The Commission has acknowledged that while fuel excise (and its related road user charge) was not historically intended as an emissions-reduction policy, it plays a *de facto* role as a price on carbon (see also 1.4 below).

The EVC broadly supports the Commission's recommendation that "governments should require heavy vehicle users to pay both the costs of their emissions *and* the road damage they cause." However, implementation of such a dual charge may have adverse impacts, complicate regulatory charges and push up freight costs in the economy. Elsewhere the Commission has recognised the costs of compliance and red tape and argued for fit-for-purpose regulation.

Already, the current 'road user charge' is more accurately operating as precisely the carbon component recommended by the Commission – it applies to high-emitting vehicles proportionally based on fossil fuel use, while zero emission vehicles are exempt. It is not hypothecated for infrastructure investment so cannot accurately be described as cost recovery for road maintenance, as the Commission itself notes.

The EVC champions simplicity in regulatory design. Given the road user charge for trucks is already in effect and operating well, it should be retained (but perhaps renamed) while phasing in a dedicated new charge for all on-road vehicles that genuinely recovers for the cost of road expenditure. Were a new charge on electric trucks introduced at this early stage of the transition, it could stop the transition in its tracks (refer to Option 5, below).

The EVC suggests switching the Commission's proposed charges: a *de facto* carbon component is already in place; a *genuine* road user charge (for all vehicles) could be phased in gradually over the medium term. This approach would have the advantage of incentivising more low emission vehicles onto the roads earlier while allowing them (and revenue generation) to scale in line with decarbonisation.

Option 2: Apply the Safeguard Mechanism to fuel wholesalers

Nil comments from the EVC.

Option 3: Increase the rate of fuel excise paid by users of heavy vehicles

Similar to Option 1 above, the EVC supports proposals to preserve the price signal implicit in the fuel excise to incentivise emissions reduction in the heavy vehicle sector. The EVC supports a fair and equitable system for funding public roads, however the current road user charge for trucks is no longer fit-for-purpose and would benefit from a root and branch overhaul.

Despite its name, the road user charge for trucks is not hypothecated for road funding and is becoming less effective as fuel efficiency improves and the link between diesel use and road use decouples. The EVC recognises the work undertaken by government to date and acknowledges the merits of a per-kilometre charge, based on the 'user pays' principle. A revised charging model will necessarily impact future fuel excise rates, given the current RUC is effectively collected as the non-refunded portion of fuel excise paid.

Irrespective of the Commission's specific proposal to raise the effective excise rate, the EVC recommends a wider review into the long-term use of fuel tax credits as a policy lever. Fuel tax credits are a fossil fuel subsidy that impose significant budgetary pressures, run contrary to the abatement targets of all Australian governments and directly undermine the Commission's own efforts to incentivise emissions reduction in the heavy vehicle sector. They are, however, fundamental to Australia's freight industry and underpin the financial viability of trucking operations around the country.

Whether as a strategy to impose a new emissions charge (per Option 1) or as part of broader reforms to road user charges, any changes to fuel tax credits must be supported by deep consultation with industry and a phased timeline for future reforms.

Option 4: A targeted policy for low-carbon liquid fuels

The EVC recognises that fully decarbonising road transport will require a diversity of technologies and initiatives. However, some pathways have already proven more commercially viable than others. As such, a truly "technology agnostic" policy approach is not consistent with achieving "net zero at the lowest possible cost".

The EVC is agnostic on the specific policy measures recommended by the Commission with regards to renewable diesel but cautions that it is a less mature option than electrification. An excessive focus on this pathway will likely entail substantially higher cost-of-abatement.

Option 5: A targeted policy for low-emission vehicles

In stark contrast to the above, hundreds of electric trucks have already been deployed onto Australian roads and are already part of commercial freight operations. The EVC applauds the Commission's dedicated focus on such low-emission vehicles as the only low-carbon, zero-emission truck technology deployable at scale today that can meaningfully deliver "lowest possible cost" abatement.

Dedicated policy support for businesses to purchase an e-truck should be an early priority in any attempt to incentivise emissions reduction in heavy vehicles:

- Commercial fleet buyers are more likely to evaluate a heavy EV on a Total Cost of Ownership (TCO) basis. While the TCO is approaching parity for some operators, applications and routes, e-trucks remain 2-3 times the sticker price of a comparative diesel vehicle, often obscuring the per-kilometre savings of going electric.
- Australia's truck fleet is one of the oldest in the OECD. A truck purchased today will likely still be on the road in 2040. The long asset lives of Australian heavy vehicles justify a dedicated focus on incentivising uptake and accelerating turnover.
- Like the passenger vehicle market, 'going hard and going early' would see brand-new electric trucks turned over to the second-hand market faster. This is where most of the small/medium businesses that make up 95% of operators will purchase/lease their next truck. The second-hand market is what will scale reductions in heavy vehicle emission.
- Zero emission vehicles (like e-trucks) offer wider economic benefits to Australia (e.g. reduced pollution, lower health burden, improved air quality). Their near-silent operations could also reduce the need for noise curfews, unlocking the productivity benefits that 24/7 operations could deliver across supply chains.
- Internationally, there is no example of widespread uptake of low-emission trucks without an accompanying grant, subsidy or incentive program from government. Given the enduring capex challenges of today's e-truck technology, the EVC has been a long-time advocate of temporary and targeted financial support to help heavy vehicle operators realise the benefits of going electric.

The EVC notes the strong correlation between this option and the Commission's other work in *Creating a more dynamic and resilient economy*, particularly the observation that:

"Business investment is critical for economic dynamism and resilience. But it has fallen notably over the past decade, contributing to Australia's lacklustre productivity performance. To improve dynamism and resilience, Australia needs to... shift towards a corporate tax system that better encourages new investment."

Improved investment incentives are particularly urgent in the low-margin freight sector with its cost implications for supply chains across the Australian economy. Heavy vehicle freight is also an industry where SMEs predominate, another core focus of the Commission's recent tax proposals.

Pro-investment policies in Australia have already proven to boost uptake of low-emission heavy vehicles in the past. Temporary changes to the Instant Asset Write-Off during the COVID-19 pandemic saw an investment surge into new heavy vehicles of all kinds, including electrified trucks. The month before the expiration of the IAWO arrangements remains the highest ever month for sales of low-emission vehicles in Australia.

The EVC aligns with other industry groups – including the [Australian Trucking Association](#), [Heavy Vehicle Industry Australia](#), [Truck Industry Council](#), [NatRoad](#), [Australian Logistics Council](#) – in calling for targeted government support for low-emission vehicles, either through direct subsidies or tax incentives including (but not limited to) the Commission’s recent proposals.

Information Request 1.1: Are there options not covered that the PC should consider?

The EVC welcomes the opportunity to suggest other options to reduce emissions from heavy vehicles and suggest the Commission investigate the following three measures in closer detail:

- 1. Guaranteed residual value** – Depreciation for electric freight vehicles can be substantial, quickly eroding TCO savings from reduced fuel burn and maintenance. Anecdotally, this excessive drop in residual value can result in monthly lease payments costing an operator up to 200% those of a comparable diesel lease. Placing a (temporary) floor under resale values via concessional finance (e.g. via CEFC support for third-party financiers) could immediately boost the TCO for e-truck adoption at relatively low cost to government.
- 2. Registration arbitrage** – Embedding *operational* advantages into the on-road costs at the point of registration has proven an effective policy lever internationally. For example, ‘bonus/malus’ charges have successfully applied higher rego for older/dirtier trucks to finance exemptions for cleaner/electric trucks. When designed well this differential can prove cost neutral to registration authorities. In the near term, registration arbitrage would likely raise *more* revenue because of the number of older trucks already on Australian roads.
- 3. Zero emission zones** – Originally a health measure to reduce noxious emissions, zero- or low-emission zones have been effective in accelerating fleet turnover abroad, including in [London](#), [Shenzhen](#) and with spectacular effect in [the Netherlands](#). Over several years, more stringent emissions limits can be gradually imposed on defined geographic areas (usually in major urban centres) to restrict last-mile deliveries in diesel vehicles and advantage zero-emission options, like EVs. Many cities have opted for an outright ban but a sliding scale of emissions-based access charges could also be impactful. Again, if the price signal is well designed it could prove budget neutral or even revenue positive.

Phasing out EV-specific incentives

As stated previously, it is the Electric Vehicle Council’s strong view that now is not the time for cutting back on efforts to decarbonise the transport sector, indeed more mechanisms are required to push transport decarbonisation and vehicle electrification is the proven lowest cost, cleanest transport fuel available in Australia. This sector has for too long been undervalued, and as a result is significantly behind other sectors in its trajectory towards net zero.

Further support, particularly in the short-term, will be necessary to setup the sector to decarbonise over the coming 25 years, consistent with net zero, and while costs may be

higher, this does not mean these policies are any less important – particularly when considering the major co-benefits from transport decarbonisation, like reducing Australia’s reliance on imported oil which leads to greater energy independence and reduces sovereignty risk.

Renewed Policy Support for Transport Decarbonisation

That said, we would encourage the PC to explore other policies that are increasing the challenge of decarbonising the transport sector. For example, the light commercial vehicle market has seen rapid growth over the past decade, largely due to significant tax breaks afforded to this type of vehicle. While a proportion of the market is purchasing these vehicles for genuine commercial uses, there is a growing segment that has shifted to these vehicles due to the tax breaks. These tax breaks include the absence of a car limit for depreciation, opportunities to reduce/avoid FBT, and full GST claims on purchases.

While this is a complicated area of tax policy, changes should be made to reduce the subsidisation of high-polluting light commercial vehicles, encourage a shift towards more efficient vehicles, including EVs, and tighten the eligibility requirements for receiving these tax benefits.

Given how far behind the transport sector is, we cannot afford to simply undertake a cost-effectiveness comparison exercise against other sectors, and in turn determine that the cost of abatement in transport is too high. Transport is a critical sector to decarbonise, and spills over into the supply chain emissions of all industries throughout Australia. The cost of abatement will necessarily be higher – largely due to the lack of action until recently, and it is the Electric Vehicle Council’s view that while existing policies are encouraging, now is the time to confirm existing mechanisms and implement further mechanisms to reduce transport emissions.

There is a critical need for short-term supply and demand support to ensure Australia’s transport sector gets onto a trajectory consistent with achieving net zero by 2050. If measures are simply ruled out on a cost-effectiveness measure based on short-term carbon abatement, this will ignore the reality that the magnitude of carbon produced in the transport sector cannot be offset by other sectors, and that the cost is in part higher due to the longer-term nature of decarbonisation for this sector.

It is critical to also consider the alignment of existing mechanisms towards net zero targets, especially in the transport sector. There are tax incentives currently in place which encourage private investment in petrol/diesel vehicles which take us further away from net zero. These instruments are not aligned with the importance of reducing transport emissions and in fact, increase the cost of abatement in other sectors.

Finally, it should also be noted that while some transport decarbonisation policies may be more expensive than other sectors, they deliver other economic benefits, including reduced air pollution leading to improved health outcomes, reduced transport costs to improve productivity, as well as supporting Australian-produced energy via electric vehicle (EV) charging. These co-benefits should not be ignored.

The Australian transport sector faces several challenges in rapidly reducing carbon:

- the national vehicle fleet is comprised of around 20 million vehicles, many of which are expected to have a lifespan of up to 20 years. This means that the vehicles entering the fleet in 2025, are likely to remain in the fleet until the 2040s. This slow turnover rate also means that carbon abatement takes time, but there is a limited window to achieve the rate of change required to align with net zero by 2050.

Supply & Demand Policies

The EVC does not share the interim report's assertion that the New Vehicle Efficiency Standard (NVES) and the Electric Car Discount (FBT Exemption for EVs) are duplicative.

The NVES drives supply-side change by requiring manufacturers to improve the average efficiency of their fleets and does not automatically reduce the upfront cost or increase the attractiveness of low-emission vehicles for Australian consumers:

1. **It regulates manufacturers, not consumers:** The NVES applies to car companies, setting a fleetwide emissions cap on the vehicles they sell. It does not directly change the cost, incentives, or purchasing conditions for individual consumers.
2. **Focus is on average fleet emissions:** Manufacturers can still sell high-emission vehicles (e.g., large SUVs, utes) provided they balance them with enough low-emission or zero-emission vehicles to meet the overall standard. This means polluting models don't disappear, and buyers can still choose them freely.
3. **No direct price signal for consumers:** The policy does not place a tax, fee, or rebate at the point of sale. Unlike schemes such as "feebates" (penalising high emitters, subsidising low emitters), the NVES only indirectly shifts manufacturer pricing strategies.
4. **Manufacturer flexibility:** Companies can use credits, trading, or banking mechanisms to comply, which may delay the flow-through of benefits to buyers. If cheaper compliance pathways exist (like tweaking efficiency in existing models), manufacturers may not prioritise bringing in a wider range of low-emission cars.
5. **Consumer demand still plays a role:** Even if manufacturers import more efficient models, uptake depends on affordability, availability, and consumer preferences. Without complementary measures (subsidies, charging infrastructure, education campaigns), consumer purchasing may not shift quickly.

In short, to truly shift purchases, demand side incentives (like the FBT Exemption) remain a critical pillar for driving change. Particularly during the recent high inflationary environment, consumers in general are not only risk-adverse to change but limited in their economic ability to cover higher upfront costs of new technologies – even where the total cost of ownership may be at parity or below incumbent technologies (e.g. EVs vs petrol/diesel vehicles). This presents a major challenge when trying to mainstream new technologies – particularly without the use of demand-side incentives.

We note the Productivity Commission in 2023 previously advocated against the use of demand-side incentives for the EV market. To our knowledge, no international market has been successful in accelerating EV adoption beyond 30% without the use of demand-side incentives, and international bodies – such as the International Energy Agency – continue to highlight the important role demand-side incentives play in supporting EV adoption¹. Even EV markets where adoption is around 50% or above (e.g. China, Norway, etc.) have continued demand-side incentives. The EVC does, however, support a gradual phase-out of temporary

¹ <https://www.iea.org/reports/global-ev-outlook-2025>

incentives once the battery electric market achieves 30% adoption, with an emphasis on the need for a phase-out to ensure there are no major shocks to the market.

Fringe Benefit Tax (FBT) Exemption

At present the FBT exemption (the 'Electric Car Discount') is the key demand-side incentive for encouraging EV uptake in Australia and will remain essential over the next few years to ensuring the market is supported to achieve the targets set under the New Vehicle Efficiency Standard (NVES). Importantly, the FBT exemption for battery electric vehicles needs to be extended beyond 2027 to continue providing an important demand mechanism to avoid the type of significant drop-off in demand seen in New Zealand following the removal of similar measures. In fact, it is the view of the Electric Vehicle Council that additional demand-side incentives in addition to the FBT exemption – albeit temporary – will be required across both federal and state jurisdictions, to support the emissions reduction rate set under the NVES.

The EVC has concerns about previous attempts to assess the cost/cost-effectiveness of the FBT exemption, for the following reasons:

- As previously mentioned, the true carbon abatement assessment requires an assumption of a real-world emissions rate for petrol/diesel vehicles. The rate of 146.5 g/km assumed in the PC's 2023 report is unrealistic as it is based on the official test cycle, and not in line with average real-world consumption of Australian new vehicles.
- The FBT exemption provides an additional benefit beyond the standard tax deduction benefits available to ICE vehicles (see below) that are purchased via a company or leased via salary packaging arrangements. The actual cost of abatement is the marginal cost difference of an EV being purchased under this arrangement, as opposed to a petrol/diesel vehicle. This varies across circumstances, but the EVC estimates this marginal benefit to be in the order of \$2,000 - \$3,000/year, with vehicles receiving this benefit generally for a 3 to 4 year period. As such, we estimate the average marginal benefit per EV is approximately \$10,000 per vehicle. In other words, this is the marginal reduction in tax revenue collection under this policy.

Separately, the PC's cost of abatement estimations should evaluate the efficacy of applying the FBT exemption to vehicles that do not contribute to emissions reduction at all.

- Under current arrangements, the purchase of high-cost, high-emission vehicles are given favourable tax treatment that materially undermines the policy intent of the Electric Car Discount. In effect, it incentivises the opposite consumer behaviour to that required for the net zero transformation. The FBT exemption on non-EVs acts as a substantial cost of non-abatement and is clearly counter-productive to improving the cost-effectiveness of transport abatement policies.
- However the PC calculates the Electric Clean Car Discount's cost of abatement, continued subsidisation of high emission vehicles through the FBT exemption has no place as part of coherent sector-wide emissions reduction signals.

The EVC has made a separate submission with NALSPA and AFIA demonstrating the value of the FBT in emissions abatement to 2050.

Second-Hand Market

One of the clearest gaps in the emissions reduction policies for transport is in the second-hand market. The NVES, the FBT exemption and most demand-side incentives (e.g. at state level)

focus exclusively on the sale of new vehicles, notwithstanding that most motorists buy from the second-hand market. Per the above, a vehicle purchased today will likely remain on the road until 2045 with a second, third and even fourth owner before retirement.

Policy responses to the second-hand market have largely been indirect. Most new vehicles are purchased by corporate or government fleets and are held between 3 to 5 years before being turned over. Faster EV adoption by fleets therefore helps accelerate supply to the mass (second-hand) market. Nevertheless, policies to date have overlooked the importance of second-hand EV uptake as a transport emissions reduction measure.

Demand-side policies for second-hand EVs offer potentially lower cost of abatement relative to subsidies for brand new EVs. Depreciation of used EVs appears to be stabilising now that technology has superseded many first-generation EV models with low resale values. Nevertheless, the value of demand-side incentives required to drive behaviour change (e.g. via subsidy amounts) is likely to be far lower than for new vehicles.

Beyond a purely economic lens, incentivising second-hand purchases of EVs would also embed 'just transition' principles into transport emissions reduction policy; both low-income consumers and SME fleets are more likely to benefit from such policies and less likely to be able to access EV benefits absent policy support.

DRAFT RECOMMENDATION 1.4: APPLY FRAMEWORKS TO ACHIEVE EMISSIONS TARGETS AT LEAST COST AND IMPROVE TRANSPARENCY

The Commission's recommendation for national target-consistent carbon values (TCCVs) has merit. The EVC recognises both the benefit such a price signal would have in achieving least-cost abatement and the significant complexities in implementing one.

The EVC notes that road transport is the only sector in the Australian economy subject to anything close to such a price signal: the fuel excise. As the Commission itself has noted, the fuel excise incidentally creates an incentive to reduce carbon emissions. Currently, vehicles that do create tailpipe carbon emissions are subject to the excise; those that do not are exempt.

The EVC is concerned that the recent policy focus on imposing a road user charge for electric vehicles could effectively nullify this implicit price signal. Any road user charge that applied *only* to zero emission vehicles would reduce or negate the relative cost differential between low/high sources of transport emissions – effectively the opposite of the Commission's broader proposal.

Instead, the fuel excise in the transport sector could serve as a model or 'base rate' for the cost estimates needed to effect the very TCCVs proposed by the Commission. Any framework to achieve 'lowest possible cost' of carbon reduction must strengthen current policy settings, rather than undermining one of the only implicit carbon values already in the Australian economy.