

Polestar Australia Response to the Productivity Commission's Interim Report: Investing in cheaper, cleaner energy and the net zero transformation

About Polestar

Polestar was founded on a mission to accelerate the shift to sustainable, electric mobility. Together with design and technology, sustainability is one of the three pillars that form the foundation of everything the brand stands for. As a young company, Polestar is legacy free and stands behind a powerful climate solution. Polestar is committed to delivering consumer choice to the EV market, with three models for sale in the Australian market.

Polestar welcomes the opportunity to respond to the Productivity Commission's interim report: investing in cheaper, cleaner energy and the net zero transformation (the report). Given the PC's interim report is broad ranging. It outlines suggested reforms for the Australian government to boost productivity while transitioning to a net-zero economy.

The report focuses on three key areas:

- reducing the cost of meeting emissions targets
- speeding up approvals for new energy infrastructure
- addressing barriers to private investment in climate adaptation.

Polestar's response relates to those directly related to the growing rate of electrification in Australia's light vehicle fleet.

As the Productivity Commission considers measures to continue Australia's net zero transformation, its focus has understandably moved to the implications of various demand side incentives for the uptake of electric vehicles.

General Comments

The uptake of electric vehicles in Australia offers the potential to deliver a significant reduction in carbon emissions, improved air quality and better health outcomes in our major cities. Electric vehicles also offer the opportunity to deliver significant cost savings for Australian households and businesses when compared to the in-service costs of comparable internal combustion engine (ICE) vehicles.

Australian EV uptake and the role of incentives

Australian electric vehicle (EV) sales saw significant growth in the first half of 2025, recording approximately 12% market share of new car sales compared to 9.6% in the same period of 2024. In the second quarter of 2025 (Q2 2025), a record 41,146 new EVs were sold, representing 13.1% of all new car sales, driven by 29,244 battery electric vehicles (BEVs) and 11,902 plug-in hybrids (PHEVs).

This was due in substantial part to the role of FBT incentives. The Fringe Benefits Tax (FBT) exemption for electric vehicles (EVs) is a critical government policy that significantly supports the uptake of EVs in Australia. It works by making eligible EVs more affordable, particularly through salary sacrificing and novated leasing arrangements. Here's a breakdown of why this is so important:

How the FBT Exemption Works

FBT is a tax employers pay on certain non-cash benefits provided to their employees, such as a company car for private use. The EV FBT exemption, introduced in July 2022, removes this tax on eligible zero- or low-emission vehicles.

For an EV to be eligible, it must meet several conditions:

- It must be a battery-electric vehicle (BEV), hydrogen fuel cell electric vehicle (FCEV).
- The vehicle must have been first held and used on or after 1 July 2022.
- The value of the car must be below the luxury car tax (LCT) threshold for fuel-efficient vehicles.
- The exemption also extends to associated car expenses like registration, insurance, and maintenance.

This exemption has been particularly effective when combined with a novated lease. In a novated lease, an employee leases a car through their employer, and the payments and running costs are deducted from their pre-tax salary. Before the exemption, a portion of the payment would have come from after-tax salary to offset the FBT. With the FBT exemption, all eligible costs can be paid from pre-tax income, leading to significant tax savings.

International market comparisons

The International Council on Clean Transportation (ICCT) identified that road transport globally is a large and growing source of CO₂ emissions, contributing approximately 25% of the total annual CO₂ emissions in the European Union and the United States. By comparison, CO₂ emissions from the road transport sector in Australia has increased by more than 50% in the 30 years to 2020, a significantly greater proportion than more than the EU and US. By the end of the decade, transport is expected to contribute more than 10% of Australia's annual CO₂ emissions.

While these are sobering statistics, the situation is forecast to get worse without further intervention. The 2023 report *Joined in Climate Action: the Pathway Report*, commissioned jointly by Polestar and EV brand, Rivian, identified that based on its current trajectory, the global automotive industry is expected to overshoot its share of the global contribution to limit global warming to 1.5 degrees Celsius by 2050 by 75%.¹

However, there is reason for some optimism. Globally, EV uptake is increasing at a startling rate. In 2024 more than 20% of all new cars sold were electric. As the International Energy Agency (IEA) noted in its Global EV Outlook 2025 report:

*Just the additional 3.5 million cars sold in 2024 compared to 2023 outnumber total electric car sales in the whole of 2020.*²

In 2024, electric vehicles constituted nearly half of all car sales in China, accounting for almost two-thirds of global electric vehicle sales. China aside, the global uptake of EVs has been directly attributable to incentives and concessions.

Incentives drive EV uptake and drive down emissions

Given the cost differential that continues to exist between the majority of EVs on sale in western markets compared to their ICE counterparts, the absence of incentives and concessions will continue to hold back EV sales. This has been confirmed in comparable markets to Australia, where recent policy shifts have led to stagnation in the new EV market.³

In 2024, electric vehicle (EV) sales in Europe plateaued, with EVs making up approximately one in five new cars sold, a share consistent with the previous year. This stagnation was largely driven by a reduction or removal of government subsidies in key markets, including Germany and France.⁴

- Germany: The phasing out of subsidies at the end of 2023 led to a significant slowdown in EV adoption.⁵
- France: Policy changes in early 2024, which limited the “environmental bonus” for higher-income buyers and reduced the number of eligible vehicles, also contributed to the market slowdown.⁶

¹ <https://www.kearney.com/industry/automotive/article/-/insights/polestar-and-rivian-pathway-report>

² <https://www.iea.org/reports/global-ev-outlook-2025/trends-in-electric-car-markets-2>

³ <https://www.iea.org/reports/global-ev-outlook-2025/trends-in-electric-car-markets-2>

⁴ <https://www.iea.org/reports/global-ev-outlook-2025/trends-in-electric-car-markets-2>

⁵ [https://www.best-selling-cars.com/germany/2024-full-year-germany-best-selling-electric-cars-by-brand-and-model/#:~:text=2024%20\(January%20to%20December%202024,more%20electric%20cars%20than%20Tesla.](https://www.best-selling-cars.com/germany/2024-full-year-germany-best-selling-electric-cars-by-brand-and-model/#:~:text=2024%20(January%20to%20December%202024,more%20electric%20cars%20than%20Tesla.)

⁶ <https://www.go-electra.com/en/newsroom/french-electric-vehicle/>

Beyond financial incentives, the structure of the European Union's CO2 emission standards may have also hampered growth. New, more stringent targets for car manufacturers only come into effect every five years. Therefore there was little incentive for carmakers to push EV sales in 2024, as they were already complying with the current standards. In response, the European Commission proposed an amendment in March 2025 to allow carmakers to average their performance over a three-year period, providing more flexibility.

Contrasting Success in Other European Markets

In contrast to the broader EU trend, other European countries demonstrated strong EV growth due to different policy approaches.

- United Kingdom: The UK's new Vehicle Emissions Trading Scheme, which began in 2024, mandated that 22% of new car registrations must be zero-emission vehicles. This policy propelled EV sales to a nearly 30% market share, up from 24% in 2023.⁷
- Norway: Already a leader in EV adoption, Norway achieved nearly total electrification in 2024, with 88% of new car sales being battery electric. This success is the result of long-standing policies, including high taxes on conventional cars, which have significantly reduced oil consumption for road transport. A planned tax increase on internal combustion engine (ICE) and plug-in hybrid vehicles from April 2025 is expected to further drive the market toward the government's goal of 100% zero-emission car sales by 2025.⁸
- Denmark: Denmark also saw a remarkable increase in its EV sales share, which grew by 10 percentage points to reach 56%, with nearly 100,000 electric cars sold in 2024.⁹

The US market: EV expansion continues

In 2024, the U.S. electric vehicle (EV) market saw sales reach 1.6 million, increasing the EV share of the total car market to over 10%. However, this growth was a significant slowdown from the previous year, with sales increasing by only 10% in 2024 compared to 40% in 2023. Despite this, the rise in EV sales helped to buoy the overall car market as sales of ICE vehicles remained flat.

⁷ <https://www.zap-map.com/ev-stats/ev-market#:~:text=So%20far%20during%202025%2C%20276%2C635,the%20same%20point%20last%20year.>

⁸ <https://internationalfinance.com/energy/if-insights-norways-ev-success-story-becomes-policy-blueprint-future/#:~:text=In%202024%2C%20the%20country%20achieved,on%20the%20road%20by%202025.>

⁹ <https://alternative-fuels-observatory.ec.europa.eu/general-information/news/denmark-bevs-take-over-2024-515-market-share#:~:text=These%20tax%20benefits%20include%20a,BEVs%20receive%20a%2060%25%20discount.>

The market also became more diverse in 2024, with 24 new EV models introduced, increasing consumer choice and competition. This influx of new vehicles has chipped away at Tesla's long-standing dominance. While the Model Y and Model 3 remained top sellers, Tesla's market share has fallen to 38% from 60% in 2020. This was the first year that Tesla experienced a sales decline in the U.S., while other manufacturers collectively saw their EV sales grow by 20%.

Policy adjustments played a key role supporting these developments. Two significant changes have occurred to change buyer behaviour. First, a modification to the Clean Vehicle Tax Credit at the beginning of 2024 allowed buyers to receive an immediate discount of up to \$7,500 on new EVs at the point of sale, a shift from the previous system of a tax credit received after filing. While only about 20 out of 110 available models were eligible for this credit, these vehicles accounted for more than half of all EV sales in the United States.

Second, a provision introduced in 2023 as part of the Inflation Reduction Act (IRA) reclassified leased EVs as commercial vehicles, making them eligible for the tax credit without the local manufacturing requirements. As a result, leased EVs nearly doubled their market share, accounting for almost half of all EVs sold in 2024.¹⁰ This was further supported by 27 states offering their own incentives.

Road User Charging

Polestar also wishes to use this opportunity to make a few observations about road user charging in the Australian context given the debate over road-user charging in Australia is intensifying. This is driven by the decline in fuel excise revenue as more Australians switch to more efficient internal combustion engines (ICE) and electric vehicles (EVs). Consequently, we understand that the federal government is pushing for a national, consistent approach to avoid a "patchwork" of state-based charges, which the High Court has already ruled unconstitutional.

Federal Treasurer Jim Chalmers has made road-user charging a tax reform priority. He has met with state and territory treasurers to discuss a potential national approach for EVs, with an aim to ensure reforms do not hinder EV uptake. While there is a consensus among some industry groups that a road-user charge should be introduced but not imposed until EVs make up a more significant portion of the vehicle fleet, there are a range of additional complications that need to be thoroughly considered:

- **Double Taxation:** A universal road-user charge and fuel excise existing simultaneously create a "double-tap tax" for internal combustion engine (ICE) vehicle owners.

¹⁰ <https://www.irs.gov/credits-deductions/qualified-commercial-clean-vehicle-credit>;
<https://www.pwc.com/us/en/services/tax/library/inflation-reduction-act-clean-vehicle-credits-summary.html>

- **Impact on Consumers:** How the charge could affect different groups of motorists needs to be thoroughly explored. A per-kilometre charge could disproportionately disadvantage rural Australians who drive longer distances.
- **Incentivising Uptake:** Any reform should encourage, not discourage, the shift to EVs. The practical reality of this is that a fair road-user charge applied equitably across the in-service vehicle fleet needs to be developed. To support this and the transition to greater uptake of electric vehicles, the current Fringe Benefits Tax (FBT) exemption for EVs should remain in place to support EV adoption.

Conclusion: achieving Australia's emissions reduction policy goals

The Productivity Commission's report highlights that achieving net zero at the lowest possible cost requires "consistent and comprehensive incentives" to reduce emissions. This means ensuring that policies are technology-neutral and do not preference some options over others. While we agree with this principle, it's important to recognize the current market context. The upfront cost of EVs remains a significant barrier for many consumers. The FBT exemption and other subsidies directly address this barrier, and they are a highly effective, targeted way to promote the uptake of a specific technology that is critical to achieving emissions targets.

The NVES will push manufacturers to bring more EVs to Australia, but the FBT exemption and other subsidies will ensure that there's a strong, ready market for them. Therefore, keeping both sets of policies in place for a transitional period is the most effective way to ensure that Australia meets its ambitious climate goals. The government should retain these demand-side incentives for a period of time to ensure that the EV market reaches a point of self-sustaining growth, at which point a review of their effectiveness and need would be appropriate.